

Britain and the Strategy of the Economic Weapon in the War Against Germany, 1914-1919.

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Abstract

The thesis seeks to examine practices of British economic warfare towards Germany during the First World War. In particular it focuses on the development of methods to weaken the German will for war by convincing Germany that winning a military victory would be pointless if it destroyed her commercial position. In doing so it brings together two separate elements of British economic warfare -trade war and control of raw materials - into a single strategy with a unified aim.

It explores British attempts to destroy Germany's foreign trade organisation in order to induce German commercial interests to end to the war through fear of losing post-war markets. However, in attempting this Britain was hampered by wartime conditions which interrupted the provision of shipping, capital and goods needed to make the policy a permanent success.

Many Germans believed their production and marketing methods would enable them to reclaim their share of world trade after the war. This was providing there was no punitive post-war penalisation of German trade. In June 1916 the Allies met in Paris to outline such a plan which involved the creation of an economic bloc to isolate Germany from the world trading system.

At this point *supplies* rather than *markets* became the focus of economic warfare against Germany. With control of the world's raw materials, the Allies hoped to create an economic weapon capable of threatening German post-war recovery and thus have an important psychological impact on the German commercial mind-set. However such a scheme had to contend with the differing variables of Allied, American and Imperial interests.

It is hoped the thesis will not only illuminate British economic policies during the First World War, but also contribute to the debate amongst historians on the relationship between international economic relations and foreign and security policies in the twentieth century.

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Abbreviations

ADM	Admiralty
AMTC	Allied Maritime Transport Council
BT	Board of Trade
BTC	British Trade Corporation
CAB	Cabinet
CO	Colonial Office
DOT	Department of Overseas Trade
EDDC	Economic Defence and Development Committee
EOC	Economic Offensive Committee
FBI	Federation of British Industries
<i>FRUS</i>	<i>Papers Relating to the Foreign Relations of the United States</i>
FO	Foreign Office
FTD	Foreign Trade Department
H.C. <i>Deb. 5s</i>	Hansard, <i>Parliamentary Debates</i> , House of Commons, Fifth series.
ITPC	Imperial Trade Policy Committee
IWC	Imperial War Conference
MUN	Ministry of Munitions
PID	Political Intelligence Department
RECO	Ministry of Reconstruction
RESC	Restriction of Enemy Supplies Committee
SEC	Supreme Economic Council

SWC	Supreme War Council
T	Treasury
WO	War Office
WTAC	War Trade Advisory Committee
WTD	War Trade Department
WTID	War Trade Intelligence Department
WTSD	War Trade Statistical Department.

Introduction

In 1914 the British Government, in common with the rest of Europe, failed to predict or prepare adequately for the type of war that was to be fought during the next four years.

Before the outbreak of war it was commonly assumed that modern industrial economies and international financial markets would collapse under the strain of a long war, or that the social fabric of Britain would be torn apart. The economic mobilisation of a nation's resources had never been contemplated and in 1914 the Asquith Government was forced to address this problem without prior warning. Early in the war Sir Edward Grey subordinated diplomatic policy to military strategy and similarly economic planning was also influenced by military necessity. The operation of economic factors as an offensive measure may not have been as resounding or manifest as that of the armed forces.

However they had the capacity to form a gradual and largely invisible weapon which, if allowed to develop to its full potential, could not help but have a debilitating effect on the German war effort.

This work hopes to examine a specific aspect of the practice of British economic warfare strategy. In particular it focuses on the development of methods to weaken the German will for war by convincing Germany that winning a military victory would be pointless if it destroyed her commercial position. In doing so it brings together two previously separate elements of British and Allied economic warfare - trade war and control of raw materials - into a single strategy with a unified aim. The rationale behind the policy was outlined by Walter Runciman in the Commons:

In Germany at the present time, with its widespread degree of suffering and the prospects of ruin which face many of their commercial and industrial classes in the future...there must be a great section of German opinion which will thank God for the first prospects of an early peace. If we can do anything to really persuade that section of German public opinion that peace is attainable on terms which will leave to them a chance of existence after the war, with the world open to them for trade so long as they are prepared to abide by the Pact of Peace, so long as they are not guilty of bad behaviour, I believe a great deal will have been done to prepare the atmosphere without which no peace will be possible in the future.¹

This strategy was distinct from the plans to blockade Germany. Although blockade measures induced shortages in enemy countries, they alone were not enough to induce a collapse of the German war effort. However they did provide an administrative framework with which to attempt to exercise a more coercive power through the implementation of a statutory list policy. Similarly, whilst hopes of starving Germany out quickly diminished, it was recognised that a post-war deficiency of raw materials was an outcome the German authorities most dreaded. The cessation of the physical blockade would not necessarily ensure the restocking and revictualing of the Central Powers. First ‘markets’ and then ‘supply’ were to be the keystones in this offensive economic strategy.

Studies of British economic war aims and planning have considered issues from a variety of different perspectives. The domestic economic challenge facing Britain was to provide the financial and industrial backing for the Entente whilst also attempting to raise a continental sized army. The industrialisation of modern warfare meant that men, money and munitions were required on a vast scale. The problem for the government was how to organise these economic and human resources with utmost efficiency. The stress of

¹ 100 H.C. *Deb.* 5s. cols. 2087-8. 19 December 1917.

attempting to simultaneously pursue these policies began to show on the economy by 1916. As the market economy failed to adequately cope with the demands of war the government was forced to intervene in the running of the economy to ensure the prosecution of the war was not jeopardised.²

David French has studied this steady movement, from a policy of limited liability (blockading Germany, resisting raising a large army, financing the war through exports, minimising inflation and shortages) towards 'total war'.³ He maintains that 'business as usual' was obsolete as an effective strategy by early 1916 with Liberal ministers like Runciman and McKenna trying to fight a rearguard action to mitigate the onset of total war.⁴ A.D. Harvey turns this notion around and suggests the position taken up by McKenna, Runciman and other advocates of financing the war by exports "did in fact represent a retreat from a rather more adventurous policy which had seemed feasible during the first months of the war."⁵ He suggests that Britain attempted to pursue total war from the outset, only to realise that her resources could not sustain the immense combined financial, industrial and military effort. John Turner also maintains that Britain

² See E.M.H. Lloyd, *Experiments in State Control* (Oxford, 1924), S. Hurwitz, *State Intervention in Great Britain*. (New York, 1949), Peter Dewey, 'The New Warfare and Economic Mobilization' in *Britain and the First World War*, John Turner (ed.) (London, 1988), G.C. Peden, *British Economic and Social Policy from Lloyd George to Margaret Thatcher* (Hemel Hempstead, 1990), Sidney Pollard, *The Development of the British Economy, 1914-1967* 2nd edition (London, 1969), Alan Milward, *The Economic Effects of the Two World Wars on Britain* (London, 1970).

³ The concept of 'total war' has been the source of recent discussion. It has been questioned whether the phrase 'total' can be used to describe any war. If anything it has become a convenient narrative in which to place the history of conflict which begins with the *levée en masse* during the Napoleonic conflict and ends with global nuclear annihilation. The First World War is seen as a stage in the development of this process. Seeing the events of 1914-18 as a process rather than an end result allows greater analysis of its form and evolution and also its constraints and limitations. See John Horne, 'Introduction: mobilizing for 'total war', 1914-1918' in *State, society and mobilization in Europe during the First World War*, John Horne (ed.) (Cambridge, 1997) and Roger Chickering, 'Total War. The Use and Abuse of a Concept' in *Anticipating Total War. The German and American Experiences, 1871-1914*, Manfred F. Boemeke et al (eds.) (Cambridge, 1999).

⁴ See David French, *British Economic and Strategic Planning 1905-15* (London, 1982), *British Strategy and War Aims, 1914-1916* (London, 1986).

⁵ A.D. Harvey, *Collision of Empires. Britain in Three World Wars, 1793-1945* (London, 1972) p.285.

went all out for victory from the outset. The 1916 offensive was intended to bring an early victory before economic and financial constraints or mediation by the United States forced an unfavourable peace. To get such a result, the Government had knowingly sacrificed the civilian economy and hugely increased Britain's overseas debt.⁶ The financial aspect of this dilemma has been explored by Kathleen Burk who examines Britain's purchasing practice in the United States. She studies the financial implications of this policy and charts the shifting balance in power between the two countries during the war.⁷

The role and effectiveness of the blockade is a dominant feature in the discussion of economic warfare. Although hesitant at first in the application of blockade measures, by the end of 1916 the British had developed an extensive blockade system. Exports of food and raw materials to neutral countries adjacent to Germany were rationed to the minimum domestic consumption on the understanding that the goods would not be re-exported to the enemy. Goods were consigned for distribution to specific organisations recognised by the Allies and subject to the supervision of inter-Allied trade committees. Firms suspected of trading with the enemy were blacklisted and prohibited from trading. Some of the surplus domestic output of adjacent neutrals was purchased by the Allies to prevent its export to the enemy.⁸

Arthur Marsden attributes the lengthy process in imposing a vigorous blockade to

⁶ John Turner, *British Politics and the Great War* (New Haven, 1991) p. 126.

⁷ Kathleen Burk, *Britain, America and the Sinews of War, 1914-18* (London, 1985).

⁸ For a general overview see Marion Siney, *The Allied Blockade of Germany 1914-1916* (Michigan, 1957) and Maurice Parmelee, *Blockade and Sea Power. The Blockade, 1914-1919 and its significance for a world state* (London, 1924). The official history of the blockade by A.C. Bell, *A History of the Blockade of Germany 1914-1918* (London, 1937) was written in 1937 but due to the sensitivity of the subject during the inter-war years was not published until 1961. See also studies by officials responsible for the blockade such as W.A. Forster, *The Blockade, 1914-1919* (London, 1939) and H.W. Carless Davis, *A History of the Blockade. Emergency Departments* (HMSO, 1920).

British appeasement of American interests, to the detriment of the blockade. He states that America was only placated by the growing prosperity of the economy due to huge Allied orders and by the relaxation of the rules in individual cases. The tough enforcement of restrictions against neutral countries adjacent to Germany was only possible if the United States remained diplomatically inactive.⁹ John Coogan argues the opposite stating that, although the British Government would have backed down at the first concrete sign of resistance, the British sensed American indecision over the issue and strengthened the blockade regardless. Wilson's attitude towards the blockade was conditioned by the War of 1812 when the United States fought Britain for her own commercial reasons rather than aiding in the fight to secure the freedom of Europe from Napoleon. According to Coogan, Wilson's maritime rights policy was based on the fact that American national security would be endangered by a German victory, that neither trade nor legal rights were a sufficient reason to break relations with Britain and public opinion should not be allowed to undermine Presidential authority (as it had done in 1812). The United States government thus became a partner in the Allied campaign to economically strangle Germany long before she entered the war.¹⁰

M.W.W.P. Consett, as wartime naval attaché to Sweden, identifies diplomatic concerns over political relations with neutral states as impeding the effectiveness of the

⁹ Arthur Marsden, 'The Blockade' in *British Foreign Policy under Sir Edward Grey*, F.H. Hinsley (ed.) (London, 1977).

¹⁰ John Coogan, *The End of Neutrality: The United States, Britain and Maritime Rights, 1899-1915* (Ithaca, 1981).

This was possible according to Bradford Perkins in *The Great Rapprochement* (London, 1969) because instinctive American dislike for England had lost much of its force in the decade before 1914. Tension had become ritualistic rather than actual (pp. 3-11). Kevin Phillips notes in *The Cousins' Wars* (New York, 1999) that the wartime alliance might not have been possible if war had occurred a generation earlier, before German and Irish immigrants had been partially assimilated (p. 555).

blockade.¹¹ He clashed with the British minister to Sweden, Sir Esme Howard, who thought that blockade restrictions could not be implemented in isolation but had to be balanced along with political considerations. Sweden had pro-German sympathies and it was vital that her neutrality be maintained. She also provided a vital supply route to Russia.¹² In reality neutral states were forced to depart somewhat from the traditional concept of neutrality and reach agreements with both sets of belligerents to regulate internal and external trade.¹³

Security, both national and international, emerges as a dominating factor in any analysis of economic war aims and planning. The demand for economic planning to ensure national security against aggressive German commercial dominance was in part an extension of pre-war rivalry. The rapid expansion of German exports in world markets since the turn of the century and the methods through which this expansion was achieved has been attributed as a fundamental cause in growing Anglo-German hostility.¹⁴ Yet this fear has been largely shown to be unfounded and contemporary reactions described as “emotional rather than rational”.¹⁵ Germany was the weakest of the three leading industrial nations having no equivalent national market to match Britain’s colonial empire or the continental territory of the United States. Outside Europe, Germany struggled for dominance in the least promising markets, already abandoned by the

¹¹ M.W.W.P. Consett, *The Triumph of Unarmed Forces, 1914-1918* (London, 1923).

¹² Lord Howard, *Theatre of Life* (London, 1935-6). See also B.J.C. McKercher and Keith E. Neilson, 'The Triumph of Unarmed Forces': Sweden and the Allied Blockade of Germany, 1914-1917,' *Journal of Strategic Studies*, 7/2 (1984) pp. 178-199.

¹³ D.T. Jack, *Studies in Economic Warfare* (London, 1940) p. 144.

¹⁴ See R.J.S. Hoffman, *Great Britain and the German Trade Rivalry, 1875-1914* (Philadelphia, 1933), P.M. Kennedy, *The Rise of the Anglo-German Antagonism, 1860-1914* (London, 1980), Cain and Hopkins. *British Imperialism, Innovation and Expansion, 1688-1914* (London, 1993).

¹⁵ D.C.M. Platt, *Decline and Recovery in Britain's Overseas Trade* (London, 1993) p. 15.

overstretched British trader.¹⁶ The purpose of alarmist literature, the most famous example being E.E. Williams *Made in Germany* (1896), was not necessarily to produce anti-German feeling. It was often an attempt to highlight the inadequacies of British trading methods rather than assigning to Germany more sinister motives of political penetration and economic subjugation.¹⁷

Yet it was not the actual nature of competitive relations which mattered but how this was reflected in the public mind.¹⁸ When war broke out, German trading methods were effortlessly integrated into the rising tide of general Germanophobia. Some stood out against the trend¹⁹ but, as Robert Bunselmeyer points out, old-fashioned protectionism and wartime anti-German economic policy combined to fashion a new ‘patriotic protectionism’ for which many liberal free-traders were prepared to forgo their principles, as least for the duration of the war.²⁰ The War seemed like an ideal opportunity to destroy German commercial power and the Germans initially blamed the British for engineering a conflict to achieve this purpose.²¹ Yet the war ultimately undermined the international economy, weakened Britain’s global trading position and

¹⁶ Ibid., p. 16.

¹⁷ See Albert Hirschman, *National Power and the Structure of Foreign Trade* (London, 1945) pp. 54-55. E.E. Williams, *Made in Germany* (London, 1896). Williams concluded: “I decline to believe that England’s industrial character has so deteriorated that she is unable to pull herself up to the German standard of conduct. Her unique position as unchallenged mistress of the Industrial World is gone and is not likely to be regained. But some of the departed glory may yet be restored to her.” (pp. 144-5). He advocated initiatives such as subsidised transport, an increase in the number of commercial consuls, better technical education and the adoption of the metric system to regain commercial advantage. (pp. 167-172).

¹⁸ Christoph Buchheim, ‘Aspects of XIXth Century Anglo-German Trade Rivalry Reconsidered’, *Journal of European Economic History* X (1981) pp. 273-289.

¹⁹ J.A. Hobson in *The New Protectionism* (New York, 1916) wrote: “The notion that all this expanding trade and finance have been the cat’s-paw of the aggressive German state is baseless... The suggestion that German traders, bankers, colonists, are merely advance agents of the German state is one of those impositions upon credulity which would not have been possible in any other atmosphere than that of war.” (pp. 78-79).

²⁰ Robert Bunselmeyer, *The Cost of the War 1914-1919, British Economic War Aims and the Origins of Reparation* (Hamden, Conn. 1975) p. 52. Andrew Marrison in *British Business and Protection, 1903-1932* (Oxford, 1996) p. 233, endorses this view and describes how protectionists marched “proudly behind their new mistress, Patriotism”.

allowed the United States to challenge her economic dominance.²²

Victor Rothwell observes that the notion of military victory was supreme for the first two years of the war and it was only during 1916, in response to fears of post-war German economic plans, that planning was thought necessary to protect British industry and ensure future independence from Germany.²³ For Rothwell, the economic implications of the war for Britain included the desire to render permanent damage to Germany's commercial position and eliminate the German practice of using economic means to gain political influence over other countries. Ultimately Rothwell ends by stating that the British would have "looked upon the abandonment of almost all economic war aims against Germany as a small price to pay for her transformation to the ways of democracy and peace."²⁴ Yet Douglas Newton, in his analysis of British policy towards the early Weimar Government, recounts how the fledgling German democracy was endangered through British insistence on maintaining the economic blockade despite its potentially disastrous effects on the fabric of German society.²⁵

Security also features as the underlying basis in Peter Cline's study of economic planning during the war.²⁶ He takes issue with R.H. Tawney's study of the abolition of government controls, which surmised that the post-1918 government had no fixed view of the benefits or defects of returning to the pre-war economic system. Instead they were pushed by businessmen, bankers and the Treasury into the pre-1914 orthodox policy of

²¹ R.J.S. Hoffman, *Great Britain and the German Trade Rivalry, 1875-1914*, p. 273.

²² Cain and Hopkins, *British Imperialism, Innovation and Expansion*, p. 462. Burk, *Britain, American and the Sinews of War, 1914-18*, p. 221.

²³ Victor Rothwell, *British War Aims and Peace Diplomacy, 1914-1918* (Oxford, 1971).

²⁴ *Ibid.*, p. 281.

²⁵ Douglas Newton, *British Policy and the Weimar Republic, 1918-1919* (Oxford, 1997).

²⁶ Peter Cline, 'Winding Down the War Economy: British Plans for Peacetime Recovery, 1916-19' in *War and the State: The Transformation of British Government, 1914-1919*, Burk (ed.) (London, 1982).

few state controls and non-intervention.²⁷ Cline claims that plans to continue the practice of state intervention after the war were due to the desire for national security and not a result of economic or social issues. Similarly he believes that Paul Barton Johnson, in his study of reconstruction, over-emphasises the importance of social and economic issues, such as housing, manpower and industrial efficiency.²⁸

For Cline, planning for reconstruction began in response to an expected German Zollverein in central Europe and the prospect of Germany 'dumping' goods in order to recover lost markets. In March 1916 a Reconstruction Committee was established to gather information on the economic problems Britain would face after the war. The Paris Economic Conference in June of the same year attempted to co-ordinate Allied proposals to form a distinct economic grouping freed from interaction with Germany. Both were attempts to take action to ensure economic security against Germany.²⁹ Marc Trachtenberg wonders whether the Paris Conference meant anything more to the British Government than a threat useful in possible peace negotiations with Germany.³⁰ Cline claims that in Britain the Paris Resolutions "embodied the fundamental principles underlying economic recovery planning".³¹ Yet the Paris Resolutions are only referred to in passing in Johnson's detailed study of British planning for reconstruction.

In July 1916 Asquith established a committee under Lord Balfour of Burleigh to examine commercial and industrial policy after the war, with special reference to the

²⁷ R.H. Tawney, 'The abolition of economic controls, 1918-21', *Economic History Review* 1, XIII (1943) pp. 1-30.

²⁸ Paul Barton Johnson, *Land Fit for Heroes. The Planning of British Reconstruction, 1916-19* (Chicago, 1968).

²⁹ Peter Cline, 'Winding Down the War Economy: British Plans for Peacetime Recovery, 1916-19' in *War and the State: The Transformation of British Government, 1914-1919*, pp. 163-4.

³⁰ Marc Trachtenberg, *Reparations in World Politics: France and European Economic Diplomacy, 1916-1923* (New York, 1980) p. 6.

³¹ Peter Cline, 'Winding Down the War Economy: British Plans for Peacetime Recovery, 1916-19' in *War*

conclusions reached at the Paris Conference. His recommendations were a mixture of measures aimed at countering the current influence of Germany in trade through anti-dumping laws, protection of essential industries and imperial control, and, measures to aid British trade through the organisation of Trade Associations, the reform of the Consular Service and improving to export trade.³² In a sense the Paris Resolutions were refracted through this committee onto the domestic British political scene. As subsequent discussion over economic planning revolved around the recommendations of the Burleigh Committee, the Paris Resolutions became enveloped in a wider domestic debate regarding reconstruction.

Anne Orde, in her examination of British wartime planning for post-war European reconstruction, surmises that whilst domestic problems were considered “such thought as was given to international aspects was directed almost entirely to continuing economic warfare against Germany by the control of trade, rather than towards the task of reconstruction itself.”³³ Yet with increasing scepticism as to whether Germany would be capable of launching a post-war economic offensive, methods of economic security and trade war became merged with domestic reconstruction. What started as a programme to control Allied materials in order to pressurise Germany to cease hostilities, later became a programme to provide for Britain’s own industrial needs.³⁴ Nevertheless, the idea that planning for economic warfare should cease because it became apparent that Germany was in no condition to launch a post-war trade offensive was flawed. Until mid-1918,

and the State: The Transformation of British Government, 1914-1919, Burk (ed.) p. 164.

³² Cd. 9035, *Final Report of the Committee on Commercial and Industrial Policy after the War* (1918).

³³ Anne Orde, *British Policy and European Reconstruction after the First World War* (Cambridge, 1990) p. 5.

³⁴ Rothwell, *British War Aims and Peace Diplomacy*, pp. 274-279. Peter Cline, ‘Winding Down the War Economy: British Plans for Peacetime Recovery, 1916-19’ in *War and the State: The Transformation of British Government, 1914-1919*, p. 173.

Germany was still capable of winning the war by military means and therefore imposing on Europe a favourable economic order by force of arms. In the event of such an outcome, structures had to be in place to counter this.

The rationale behind economic controls for national security collapsed along with Germany in November 1918. Robert Bunselmeyer examines British economic war aims as a prelude to his discussion of the reparation issue. The possibility that Britain might not have won the war discouraged detailed economic planning for reparations and instead encouraged planning for a trade war against Germany. As the war neared its end trade war planning was renounced in favour of direct compensation which required full German commercial and industrial strength.³⁵

In the most recent study, Georges Henri-Soutou admits that economic objectives remained subordinated to a political vision of international relations but he also believes that underlying economic aims were omnipresent.³⁶ At the national level, an economic weapon would, for the French, serve as a political lever to force Germany to accept peace terms but it also had a long-term function. By using inter-Allied organisation to control raw materials, the French could guarantee their own reconstruction and impede German economic development to enhance French security in Europe.³⁷ For Washington the economic weapon was a means of forcing Germany to conclude an acceptable peace and attempt to induce change to her political regime. For Wilson, political liberalism and economic liberalism were inseparable. The maintenance of Prussian militarism and

³⁵ Robert Bunselmeyer, *The Cost of the War 1914-1919, British Economic War Aims and the Origins of Reparation*, p. 46.

³⁶ Georges-Henri Soutou, *L'Or et le sang: les buts de guerre économiques de la Première Guerre mondiale* (Paris, 1989).

³⁷ This theme of French economic planning and security has been developed in Marc Trachtenburg, *Reparations in World Politics: France and European Economic Diplomacy, 1916-1923* and David Stevenson, *French war aims against Germany, 1914-1919* (Oxford, 1982).

Mitteleuropa, the German plan for a central European trading bloc, were political and economic dangers to future world peace.³⁸

At the international level, Soutou takes issue with Fritz Fischer's thesis by demoting the importance of German annexationist ambitions.³⁹ *Mitteleuropa* was an economic medium designed by Bethmann Hollweg to serve the political end of ensuring Continental security for Germany. This policy was ultimately abandoned on a political level as Berlin and Vienna could not agree to terms. On an economic level, the priority for Germany was a return to the international market. From the autumn of 1917 Germany was committed to ensuring equality of treatment for German citizens, access to raw materials and the maintenance of the most-favoured-nation clause.⁴⁰

For Soutou, the real impact of *Mitteleuropa* was felt outside Germany where it drove Allied economic planning. Soutou ascribes great importance to the Paris Economic Conference of June 1916 and draws a direct link between the Paris Resolutions and the eventual provisions of the Treaty of Versailles. In doing so he disagrees with Bunselmeyer's view that the Resolutions failed to find any significant place in the peacemaking of 1919.⁴¹ Soutou claims that Paris and London remained faithful to the outcomes of the Conference and continued to construct means of making themselves economically independent of Germany. An anti-German economic programme remained the order of the day and this was often more easily accepted than a programme of inter-

³⁸ This aspect is also covered in Georges-Henri Soutou, 'German Economic War Aims Reconsidered: The American Perspective' in *Confrontation and Cooperation*, Schröder ed. (Oxford, Providence, 1993).

³⁹ Fritz Fischer, *Germany's Aims in the First World War* (London, 1967) and *War of Illusions* (London, 1975).

⁴⁰ Georges-Henri Soutou, *L'Or et le sang: les buts de guerre économiques de la Première Guerre mondiale*, pp. 847-8.

⁴¹ Bunselmeyer, *The Cost of the War 1914-1919, British Economic War Aims and the Origins of Reparation*, p. 46.

Allied collaboration.⁴² Wartime planning by the belligerents fed off each other. The Resolutions of the Paris Economic Conference were an attempt by the Allies to ensure security against perceived German annexationist ambitions. The autarkic ambitions of the German General Staff, embodied in the Treaties of Brest-Litovsk and Bucharest, were a means of countering this Allied threat of a post-war boycott and commercial discrimination.

Sir George Cockerill, reflecting on his experiences during the war as director of Special Intelligence, commented:

While the Navy, Army and Air Force were exchanging blow for blow with the enemy and forcing him to his knees, covertly...new and strange weapons of war, economic and psychological, were being forged and sharpened, and, with them, bloodless warfare was being waged against his material and moral resources.⁴³

It is with these methods of 'bloodless warfare' that this thesis is concerned. As much of Britain's planning for economic warfare was eventually thwarted, the inevitability of this fact has often predetermined the way events are viewed. It is an aim of this work to avoid this notion and attempt to examine what the protagonists understood their work to be and what they eventually hoped to achieve.

The first half of the thesis explores British attempts to destroy Germany's financial and commercial foreign trade organisation in order to induce German commercial interests to end to the war through fear of losing post-war markets. The first attempt to accomplish this was by attacking overseas markets from which Germany had been gradually cut off by the blockade. At the outbreak of war an economic blockade had

⁴² Soutou, *L'Or et le sang: les buts de guerre économiques de la Première Guerre mondiale*, pp. 305-5.

been instituted to prevent goods useful in the prosecution of the war from reaching Germany and to prevent Germany from exporting goods.

However, there was also an attempt to use the blockade machinery to develop an offensive rather than passive economic weapon. The development of the Statutory List policy allowed British officials to judiciously attempt to close down German trade routes and replace them with a British alternative. H.W. Carless Davis commented the policy was intended “to strike terror into the hearts of German businessmen, to undermine the morale of the German civilian population.”⁴⁴ However, in attempting this, Britain was hampered by wartime conditions which interrupted the provision of British shipping, capital and goods needed to make the policy a permanent success. The government’s difficulty lay in determining the exact amount of interference with normal trade channels necessary for the successful prosecution of the war.⁴⁵

The destruction of German overseas trade during the war was useless as a means of undermining German confidence unless the Allies could convince Germany that it would be of a permanent character.⁴⁶ Undoubtedly the German economic position did worsen considerably with the entry into the war of the United States and the breaking of relations with several of the Latin American Republics (the last remaining open neutral markets). Events such as these were of concern to the German trading community, but many still believed that their production and marketing methods, which had proved successful before 1914, would enable them to reclaim their share of trade after the war.

⁴³ George Cockerill, *What Fools We Were* (London, 1944) p. 7.

⁴⁴ H.W. Carless Davis, *A History of the Blockade. Emergency Departments*, p. 193.

⁴⁵ See John McDermott, ‘Total War and the Merchant State: Aspects of British Economic Warfare against Germany, 1914-16,’ *Canadian Journal of History*, XXI (1986) pp. 61-76 and “‘A Needless Sacrifice’: British Businessmen and Business As Usual in the First World War,’ *Albion*, 21/2 (1989) pp. 263-282.

⁴⁶ CAB 24/20/GT. 1447: Memorandum on the Trade War prepared by the Foreign Trade Department, 27 June 1917.

This was providing, of course, there was no punitive economic penalisation of German trade after the war.

In June 1916 the Allies met in Paris to undertake just such a task. They outlined a comprehensive plan for their economic future which involved the creation of an economic bloc to isolate Germany from the world trading system, at least for a period after the war. The Paris Resolutions were borne out of a mixture of self-interest, self-defence and the desire to punish Germany. Unfortunately the measures alarmed not only Germany but also the United States. They succeeded in arousing the suspicions of the Washington administration (which remained long after the Paris Resolutions had ceased to be of active consideration by the major Allies) who saw only the consequences of the Resolutions and failed to appreciate the motives behind their formation. It has been stated that the entry of the United States into the war ended the Allies' hope of devising a common programme of economic aims.⁴⁷ This is true in hindsight but at the time it was viewed as an opportunity to recast Allied economic planning in co-operation with the United States. Much of the uncertainty over the Paris Resolutions centred on the prospect of Germany and the United States being driven together for mutual economic security by an Allied economic bloc. With the United States now standing with the Allies (albeit as an 'Associated' Power) the hope was to reframe economic measures, which could be just as effective, but in a manner more acceptable to the Americans.

From the autumn of 1917 onwards, inter-Allied co-operation for the purpose of co-ordinating the economic war effort had reached a level of sophistication which allowed a different tactic to be pursued in this 'psychological' war against Germany. With control of the world's raw materials, the Allies hoped to create an economic

weapon capable of threatening German post-war recovery and thus have a considerable impact on the German commercial mind-set. Although British efforts to develop an economic weapon had to contend with the differing variables of Allied, American and Imperial interests, progress was only halted with the sudden end to fighting. Until November 1918, the British government was preparing for a conference on raw materials, a culmination of the attempt to reframe the Paris Resolutions. After the Armistice, Wilson quickly detached himself from any further discussion regarding the conference, a decision he would have found more difficult had hostilities continued into 1919.

Wartime coalitions seldom last for long once the pressure of war has been removed. The speed of Wilson's economic disengagement from the Allies meant that economic controls, which could have been used to coerce Germany during the armistice period, were dismantled. As demobilisation proceeded rapidly, this left only the blockade to ensure German compliance with the Armistice and eventual peace terms. Although the United States ultimately refused to endorse the continuance of Allied economic measures beyond the Armistice, she also failed consistently to reverse existing blockade policy. The European Allies refused to fully lift the economic blockade of Germany despite the repeated efforts of the Americans to achieve this. The blockade was a crude method of control and its continuance not only ensured a bitter legacy for the Germans but also soured Allied-American relations during the peace process.

⁴⁷ Victor Rothwell, *British War Aims and Peace Diplomacy, 1914-1918*, p. 267.

PART ONE

TRADE AS A WEAPON OF WAR AGAINST GERMANY

I

The blockade, trade and economic strategy.

Pre-war planning for economic warfare against Germany stemmed from a realisation that Britain herself would be susceptible to pressure from a naval blockade. As the pattern of British trade expanded enormously throughout the latter half of the nineteenth century, the country's economic vitality depended upon the ability to import food and raw materials and export manufactured goods. Any disturbance to the free flow of this trade was considered potentially disastrous for the social stability of the nation, inducing unemployment and food shortages and leading to working-class unrest.¹

However, faith was ultimately placed in the Royal Navy to protect the merchant fleet and keep shipping lanes open during times of war.² During 1912-13 a Committee of Imperial Defence sub-committee, under Walter Runciman, investigated the consequences of any disruption to Britain's North Sea trade and possible ways of mitigating the resulting hardships. The Committee entrusted the survival of Britain to the Royal Navy and the enterprise of businessmen. If the navy continued to control shipping routes British businessmen could find new markets for exports and fresh sources of raw materials.³

¹ See Cd. 2643, *Report of the Royal Commission on Supply of Food and Raw Materials in Time of War* (1905).

² An account of German pre-war naval planning to exploit this vulnerability, and its subsequent failure, can be found in Peter Overlack, 'The Function of Commerce Warfare in an Anglo-German Conflict to 1914,' *Journal of Strategic Studies*, 20/4 (1997) pp. 94-114.

³ David French, *British Economic and Strategic Planning 1905-1915* (London, 1982) pp. 60-64. In response to this economic threat the government engaged in various investigations including a war insurance shipping scheme, control of the railways and ports and the question of gold reserves. See French above, chapter 4.

Regardless of whether this faith was justified, it allowed the British to project their fears on to Germany. During the 1890s the German economy developed along similar international lines to that of Britain. In doing so Germany became Britain's closest commercial rival and under the Kaiser also her most feared political opponent.⁴ German imports increased by 243% and foreign trade expanded by 214% in the period 1887 to 1912. Germany's increasing dependence on imported raw materials was evident by an increase in value from 5.7 million marks in 1872 to 161.3 million marks by 1910.⁵ This expansion in German overseas trade caused alarm amongst British merchants who now faced determined competition in overseas markets.⁶

Yet to planners at the Admiralty the increase in German sea-borne trade was a sign of weakness not strength, for it brought with it increased dependency. During 1906-08 the Trade Division of the Admiralty undertook a study into the change in the German economy since unification. They examined import and export statistics and the capacity for supply over sea and land routes. The report concluded that a sea blockade of Germany would:

reduce the German workman to a state which he feels to be intolerable; want of employment, high costs of living are the first steps towards financial embarrassment, once this latter is achieved it is believed that no nation can continue the struggle for long.⁷

⁴ On this subject see the exhaustive study by P.M. Kennedy, *The Rise of the Anglo-German Antagonism, 1860-1914* (London, 1980).

⁵ Figures from Fritz Fischer, *Germany's Aims in the First World War* (New York and London, 1967) pp. 12-13.

⁶ See R.J.S. Hoffman, *Great Britain and the German Trade Rivalry, 1875-1914* (Philadelphia, 1933) p. 279.

⁷ ADM 137/2872: 'German Trade in Time of War - Effect on the Industrial Output of the Country due to a Call to the Colours, and due to a Scarcity of Raw Materials' by Captain H.H. Campbell, c. July 1908. See Avner Offer, *The First World War: An Agrarian Interpretation* (Oxford, 1989) pp. 223-32.

Maurice Hankey, the secretary of the Committee on Imperial Defence, was a leading exponent of the 'economist' over the 'continental' approach to defence planning before the war. Hankey believed that as the drive behind German world ambition was economic, an economic strategy could provide an effective deterrent. He thought the prospect of commercial prosperity, which Germany had built up assiduously since 1870, being shattered in war was a more effective deterrent than four or six British divisions fighting with the French. If the collective power of the Entente were added into the equation, the potential pressure which could be placed on German commercial intercourse would be so overwhelming as to render war unthinkable.⁸ The notion that wars were economically irrational was given popular credence through works such as Norman Angell's, *The Great Illusion*, written in 1910. Angell argued that increasing internationalisation in credit, industry and communications made nations so economically interdependent that war was unprofitable for the victor as well as the vanquished.⁹

Despite the potential consequences for commercial prosperity, economic factors did not prevent the outbreak of war in 1914. The prospect of an economic blockade was further evidence to the Germans of Entente encirclement. The German General Staff were not entirely oblivious to the difficulties they would face in the event of a prolonged war but their solution was to deal with the problem through a short, preventative war.¹⁰ By this method Germany could achieve victory before any blockade had time to take real effect. However after the outbreak of war, Hankey did not lose faith in the potential power of the economic weapon. He maintained that if Germany's Achilles' heel was her

⁸ Avner Offer, *The First World War: An Agrarian Interpretation*, pp. 294-5, 298 and 351.

⁹ For the impact of Angell's ideas see Henry Weinroth, 'Norman Angell and *The Great Illusion*: An Episode in Pre-1914 Pacifism,' *Historical Journal*, XVII/3 (1974), pp. 551-574.

¹⁰ Michael Howard, *The Crisis of the Anglo-German Antagonism 1916-17* (London, 1997) p. 9.

vulnerability to supply, then it was only common sense that Allied efforts should be devoted to attacking it systematically.¹¹

For the first two years of the war Britain set about implementing, refining and tightening a policy of blockade. The use of the blockade as a offensive weapon of war, to induce the physical collapse of Germany, was to prove over-optimistic. However, the loss of imports did lead to a psychological erosion of civilian morale. The reduction in the quality and quantity of food undermined relations between the German people and the government.¹² The blockade authorities came to recognise that the impact of the blockade on German overseas commerce might have a similar effect on the German commercial mind-set.

The move towards a prohibition on trade based on ‘nationality’.

At the beginning of the war the French imposed stern measures against trading with the enemy. A decree of 27 September 1914 prohibited trade with citizens of enemy nations, wherever they resided, and trade with any persons resident in enemy countries. Enemy subjects were also prohibited from trading with any persons in French territories or protectorates. This was a comprehensive ban based on geography and nationality and compared favourably, in French eyes, with lax British measures. The latter were based upon the existing English doctrine in which the domicile of an individual was the determining factor of enemy character. The Trading with the Enemy proclamations of 5 August and 9 September 1914 were strictly geographical. Trade was prohibited with any

¹¹ FO 800/90: Hankey to Drummond, 25 February 1915.

firm established in enemy territory but there was no objection to trade with enemy firms in British or neutral territories outside Europe (so long as these firms had no transactions with persons within enemy nations). According to Sir John Simon, the attorney-general, this was partly due to the fact that much of Britain's trade with China and South America passed through German houses.¹³ German merchants not only traded for themselves but also controlled channels of British trade in world markets. The British discovered this to their cost when trying to undermine Germany's trade position in foreign markets.

From the outbreak of war Russian exports were also subject to rigorous restrictions. The land frontier of European Russia and the ports of the White, Baltic and Black Seas were theoretically closed. Russian measures were codified in the 'Rules on the export during the war of goods under embargo' of 4 May 1915. There was an absolute embargo on exports to the enemy and exports to the Allies and neutrals was by licence only.¹⁴ In June 1915 the British extended the definition of enemy character by a Proclamation to include all persons or bodies of persons of enemy nationality resident in China, Siam, Persia and Morocco. In September, a circular was despatched to representatives in remaining neutral countries asking them

¹² Alyson Jackson, 'Germany, the Home Front (2): Blockade, Government and Revolution' in *Facing Armageddon*, Cecil and Liddle (eds.) (London, 1996) p. 574.

¹³ 66 H.C. *Deb.* 5s. col. 595, 9 September 1914. He stated that the Government had no objection to British firms entering into transactions with a branch of an enemy house in neutral territory outside Europe, so long as the contract was made with, and the goods delivered to, the branch and there was no direct contact made with the head office in Germany. By such means "we think we have taken the security for which we must ask in order to protect national interests with calmness and good judgement without making unnecessarily severe rules against business necessary for continuing the trade and commerce of this country, and which provide employment for our own people."

One trader complained "...out here things are rotten, and while we English firms should be taking Copper trade from German houses, strange to say these said German firms who keep in touch with their shipping by wireless, continue shipping to London, Havre and Canada through, or should I say to Anglo-German bankers...I wonder it is allowed. It would be quiet easy to cripple these gentlemen if only our Government would help." Runciman MSS WR 112 (1): Extract of a letter from Rio de Janeiro sent by Robert Donald (editor of the *London Daily Chronicle*) to Runciman, 9 November 1914.

to report on the desirability of extending the prohibition of trade to enemy subjects and the military, commercial and political aspects of the question. In relation to commerce, the Foreign Office was keen to know what amount of British trade would be affected, whether shipping companies would suffer and the effect of a prohibition on the trade of the neutral country.

On 23 December 1915 the Trading with the Enemy (Extension of Powers) Act was passed which prohibited trading with any person of enemy nationality or enemy association and was intended to bring British legislation more in line with that of France. It was decided to treat with forbearance any German middleman who rendered indispensable services to British trade until it was possible to replace them with a neutral agent. The Foreign Office felt justified in pressing the policy into action on the grounds that temporary losses of trade would be slight in comparison with the ultimate advantage of eliminating German competition from overseas markets.¹⁵

Allied efforts were finally co-ordinated at the Paris Economic Conference in June 1916. There the Allies agreed to prohibit their nationals and all persons residing within their territory from entering into commercial transactions with: 1) residents in enemy territory, whatever their nationality; 2) enemy nationals whatever their

¹⁴ B.E. Nolde, *Russia in the Economic War* (New Haven, 1928) pp. 47-51.

¹⁵ H.W. Carless Davis, *A History of the Blockade. Emergency Departments* (HMSO, 1920) pp. 194-5. In an interview with the Associated Press in July 1916 Laming Worthington-Evans, of the War Trade Department, stated that the Government considered the loss to British trade much less than the loss caused to the enemy and the sacrifice involved was necessary in the interests of the Allies. FO 395/45/t92255/144721.

This was a complete reversal of the Government's position as declared during the introduction of the Trading With The Enemy proclamation of 9 September 1914, when the attorney-general stated: "the advantage which accrues to our home trade and commerce by allowing ordinary dealings to be continued is infinitely greater than any advantage which would accrue to us from stopping such trade." 66 H.C. *Deb.* 5s. col. 594.

residency; 3) persons, firms and organisations wholly or partly controlled by enemy nationals or subject to enemy influence.¹⁶

The development of the Statutory Black List.

For the sake of rendering economic action against Germany more complete the British had, under the Trading With The Enemy Act of December 1915, instituted a statutory list of persons with whom British subjects were not allowed to trade.¹⁷ The list was considered an alternative to a wholesale attack on German-owned firms as it would allow discretion to be used by the blockading authorities when severing trade connections.¹⁸ The first list was published in February 1916. Information on traders with enemy nationality or association was collected from diplomatic agents, government departments at home and commercial sources. Where all the sources agreed that a particular firm should be placed on a black list it was first placed on a provisional list which was sent to

¹⁶ Resolution I (a). Cd. 8271, *Recommendations of the Economic Conference of the Allies* (1916).

¹⁷ There were in fact three separate lists but all served the same function of severing German trading connections.

The General Black List was unpublished and consisted of two lists. Included on List A were firms against whom there existed conclusive proof of wrongdoing. Offences included: passing goods to the enemy which had only been allowed through the blockade after a declaration against re-exportation, exporting prohibited goods from a neutral to an enemy country in contravention of the laws of the neutral country, acting as an intermediary for the re-exportation from neutral countries of goods of enemy origin, holding an agency for an enemy government, evading the blockade by using codes or fraudulent papers, transacting business exclusively as a agent for an enemy firm, making contracts with an enemy government, obtaining contraband goods by evasion of the blockade. List B contained firms who were suspected but not definitely convicted of Class A offences, or who had only committed minor offences such as receiving or transmitting commercial correspondence. They were watched rather than denied commercial facilities. The Statutory List was made public and compiled from the point of view of prohibiting British citizens from supporting enemy firms who were strengthening the enemy. See H.W. Carless Davis, *A History of the Blockade. Emergency Departments*, pp. 175-183.

¹⁸ 76 H.C. Deb. 5s. col. 1872. Statement by Lord Robert Cecil, 13 December 1915.

government departments and representative bodies.¹⁹ Only when replies were received from all of these sources, and there was no serious objection, was the firm placed on the statutory list.²⁰ Steps were then taken to encourage the reorganisation of the trade affected on a British basis.²¹ Such enterprise was given official sanction. In February 1916 a secret War Office memorandum recommended that British traders should take advantage of the Trading with the Enemy Acts and the reduction of German trade to establish themselves in former German markets.²²

Naturally suspicions were aroused regarding British motives in pursuing such a policy.²³ There were also complaints from some quarters that the practice of cable and postal censorship and the publication of black lists were used to benefit British business interests. This censorship was crucial in detecting illegal enemy commerce, in locating the source of enemy supplies and in furnishing the only reliable information respecting the destination of contraband. It was the main armament in the financial and commercial blockade of Germany. Censorship was used to destroy the business of blacklisted firms,

¹⁹ These included the Foreign Office, the Trade Division of the Admiralty, the Board of Trade, Ministry of Munitions, War Trade Department, War Office, principal Chambers of Commerce, the Chamber of Shipping of the UK, the Liverpool Steamship Owners Association, the Chairman of Lloyds, representatives of principal banks and the persons engaged in a particular trade or country nominated.

²⁰ This list was amalgamated with similar lists which had been compiled since the start of the war, such as the Cable Censor's Handbook, and the Admiralty Trade Division contraband control list. Lists were also compiled by the Foreign Office for the Contraband Control Committee, the Board of Trade for customs officials and by the Home Office for British traders asking about neutral firms. The combined list, entitled the *Who's Who in Relation to War Trade*, was updated periodically and constituted a triumph for diligent bureaucracy. See, for example, the 10th issue to 30 November, 1915 in FO 382/1141/f8210/22164.

²¹ Balfour MSS 49738: Procedure for firms being entered on the Black List, 3 March 1916.

²² WO 106/1510/no. 18: 'Secret: Note on Restrictions of German Trade', 25 February 1916.

²³ The French minister in London called into the Foreign Office on 15 March 1916 and stated that there was a growing feeling in America that the movement now being organised against German commerce after the war was in reality being directed against the United States. This prompted Runciman to give an interview with the United Press published in *The Times* on 21 March. FO 368/1662/f314/50981.

as far as was possible, by stopping transit cables. Lord Robert Cecil, minister for blockade, described it as “a useful auxiliary weapon against German trade”.²⁴

In America there were complaints that business mails were opened, the bills of lading examined and the weights and prices taken before the information was passed to a central authority in Britain where it could be transmitted to British manufacturers and shipping agents in order to steal the trade of United States businessmen in the midst of war.²⁵ This was, of course, a fabrication. However British traders in neutral countries did inform against their foreign rivals in the hope that the British Government would place the rival firm on the black list and destroy their business.²⁶ The intercepted correspondence of businesses was ironically the best method of checking whether these accusations were true.

Members of the Ceylon Chambers of Commerce protested that permission was being granted to firms other than those of British and Allied nationality to trade within the colony during the war. They recommended that all neutral firms should be registered and only permitted to trade under licence, cancellable at discretion. The Governor of Ceylon, John Anderson, was in sympathy with the representations and was prepared to introduce the necessary legislation. However the Foreign Office Commercial Department saw purely commercial motives behind the request, an ultimate desire to exclude all non-

²⁴ FO 382/1141/f8210/20425: Minutes of a conference on the limitation of cable facilities for blacklisted firms, 26 January 1916. Sir George Cockerill, Director of Special Intelligence (1915-18) at the War Office, believed that the black list exerted strong economic and commercial pressure long before the Ministry of Blockade was fully established.

²⁵ The claims were made by Senator Hitchcock. See Bell, *A History of the Blockade of Germany 1914-18* (London, 1937) p. 558.

²⁶ The political and economic dangers of indiscriminate black-listing were considerable and well known to the authorities. Apart from jeopardising good relations with neutral states, the position of Britain as the world's money-market and as an entrepôt for the world's trade might have been endangered if the neutrals formed the impression that they might be barred from buying or selling in Britain on the strength of mere suspicion. H.W. Carless Davis, *A History of the Blockade. Emergency Departments*, p. 146.

British firms from Ceylon. They opposed the policy which, when carried to its logical conclusion, resolved into a proposal to reserve for British subjects the exclusive right to trade in British colonies. The requirement of a licence to trade implied the right to refuse a licence and this was directly contrary to the letter and the spirit of commercial treaties to which the British Government and the Colonies were parties.²⁷

The rationale behind the use of statutory black lists in commercial warfare.

The objects of the new statutory list policy were varied but were invariably aimed at checking and hindering the activities of German commercial houses in neutral countries. Firstly it assisted the work of the contraband authorities in preventing supplies reaching the enemy through indirect routes. German firms in South America continued to send commodities such as wheat, rubber, coffee and nitrates to Germany during the war. By placing such firms on the statutory list, shipments dwindled as ship-owners were wary of facing Allied sanctions by dealing with black-listing firms. The threat of being placed on a blacklist was often enough of a sanction for neutrals to voluntarily renounce trade with firms with German connections. It was also hoped the policy would prevent the accumulation of goods by commercial houses which might become sources of supply to German cruisers and submarines operating in foreign waters. Finally, it increased powers for the suppression and prevention of enemy activity, including attempts to foment disturbances in British dependencies and to stir up dissent between Britain and her Allies or neutral countries.

²⁷ FO 368/1871/f179529-234944: John Anderson to Walter Long, 11 October 1917 and Foreign Office to

However the main object of the new policy, as described in a memorandum written by the Foreign Trade Department for circulation to the press, was

to destroy as a measure of war as far as possible the whole German financial and commercial organisation for foreign trade, with a view to putting pressure on the commercial interests of Germany by the threat of serious immediate injury to be followed by delay and difficulty in the commercial recuperation of Germany after the war, thus exercising pressure to bring about a speedier peace. The substitution of British or neutral commercial organisations and channels of distributions for German, if it can be attained is an essential part of this policy.²⁸

The statutory list thus had a primary object altogether independent of the blockade.

Outside Europe it was practically entirely a method of trade war aimed not at blockade but at smashing Germany's overseas trading connections. In seeking not merely to weaken German firms by cutting off Allied trade but in every possible case by encouraging or even creating alternative channels for that trade, it was hoped to secure for British houses their fair share. Yet the object was not the expansion of British trade as an end in itself. Instead it was the weakening of German overseas connections with its effect on German opinion and Germany's economic capacity to continue the war, since this depended in part on a reasonable prospect of rapid recovery when peace ensued.²⁹

It was the prospect of instilling apprehension in German business circles which was seen as being the real potential benefit of black lists. The War Trade Department commented in a memorandum:

The more these interests see their future compromised by the continuation of war, and [feel] the pressure that the commercial measures of the Allies exercise on their branches established in neutral countries, the more they

Colonial Office, 19 January 1918.

²⁸ FO 395/45/195361/95361: 'Our War on Enemy Trade' by the Foreign Trade Department, May 1916.

²⁹ FO 366/787/135088: Memorandum by Mr Spens to Sir F. Eliot, undated but 1916.

will be desirous of shortening the war and the more they will consent to terms acceptable to the Allies.³⁰

The anticipation that the destruction of Germany's foreign trade organisation would have these results was based on several assumptions. It was expected that at the close of war all the belligerents would be, to a large extent, financially exhausted. Yet it would be of primary importance to resume industrial activities, and in particular export trade, as quickly as possible in order to mitigate the effects of industrial dislocation and distress. The distant and less developed markets of the world would be vital in aiding rapid industrial revival as the exhaustion of the war would limit considerably the extent to which export trade with any of the actual belligerents could be immediately revived. It was hoped that in these markets British commerce would possess an advantage from the fact that British exports had not been as seriously disrupted as those of the enemy.

This advantage would soon disappear if German commercial organisation was still in existence after the war and ready to begin trading with greater energy and purpose than before. At the end of the war, as a result of the blockade and Germany's industrially isolated position, it would be necessary for her to import heavily before any substantial industrial or commercial revival could take place. Unless there was a simultaneous increase in export trade, the exchanges would go disastrously against her. The revival of export trade depended on a fully functioning German commercial organisation at the close of the war.

The British hoped to capitalise on this commercial predicament. For it was upon this commercial and industrial revival that the future military and political power of the

³⁰ Quoted in Marion Siney, *The Allied Blockade of Germany 1914-1916* (Michigan, 1957) pp. 147-8.

current belligerents depended. It was hoped that such considerations would influence the minds of commercial leaders in Berlin, who were credited with great political influence, and thus contribute to the curtailment of the war. There was already evidence coming from the War Trade Intelligence Department that German merchants were anxiously trying to establish what steps, if any, had been taken to supplant them in neutral countries.³¹ They also identified a fear in Germany that Britain would have won the economic war, if Germany was unable to renew her transatlantic commerce, even if the peace settlement surpassed all of Germany's expectations. Only through overseas trade could the deep wounds suffered by German economic life during the war be healed. There was already doubt as to whether export trade to Austria-Hungary, the Balkans and Turkey would compensate for the loss of trade to Britain and the British Empire.³²

The ability of the British blockading authorities to achieve their intended policy was based on a particular reading of the situation. German overseas commercial organisation before the war had been supported by and relatively dependent upon foreign industry and shipping. Ironically this allowed German trading houses to remain in business even after a total severance of contact with Germany. Enemy firms were losing ground but still retained their native staffs, trade connections and kept their best customers supplied, maintaining their profile in markets and public circles. At the same time this foreign dependence would also prove to be the German traders' ultimate weakness. If British shipping and industry was denied to the enemy, only America remained available as a significant manufacturing country capable of supply.

³¹ FO 902/1: Secret Weekly Bulletin of Trade Information, 13-19 November 1915. The Bulletins were compiled by the War Trade Department from confidential reports, Foreign Office papers, secret reports, censors material and information received from Paris.

The destruction of German trade promised greatest results in the South American states and the Spanish and Portuguese colonies in Africa. It was here that German organisation was simultaneously at its most vulnerable and also most dangerous in its commercial, political and military potentialities. Measures of prohibition had to be designed to deal with the problem of neutral intermediaries being used as cover by enemy firms to carry on their business. Any measures had to be capable of easy variation, so as to meet any sudden changes in circumstances in any particular trade or country, in order to avoid undue disturbance and loss in those countries or to British trade. Finally, the measures had to define the prohibited offence as simply and clearly as possible in the interests of efficient administration and public and commercial convenience.³³

The announcement of a prohibition on trade based on nationality had left British merchants with little means of knowing who they were to trade with. There were complaints that British firms were losing valuable orders with innocent customers simply because they were uncertain of their nationality. In China it had been necessary to construct a White List of traders, containing over 1000 names, with whom dealings were permitted. However such a solution would prove impossible in a larger economy such as the United States or even in South America.³⁴ The power of discrimination offered by the Statutory List was intended to afford the necessary adaptability of procedure in order to inflict maximum damage on enemy interests with the minimum possible disturbance of British or neutral interests and, in cases of doubt, weigh the relative advantages and disadvantages of prohibiting the supply of British goods or facilities to any particular firm

³² FO 368/1669/f6672/156466: 'Internal Conditions - Enemy Countries' from the War Trade Intelligence Department, 7 August 1916.

³³ FO 395 45 f95361/95361: 'Our War on Enemy Trade' by the Foreign Trade Department, May 1916.

³⁴ Bonar Law MSS BL 191/61: Foreign Trade Department to the Board of Trade, 29 June 1916.

of enemy nationality before actually placing such a firm on the list. A German element in an overseas company created *prima facie* grounds for suspicion but did not necessarily constitute evidence of untrustworthiness.³⁵

The British authorities would not have an easy task in prohibiting supplies from neutrals to Germany or breaking trade connections. Whether the German commercial system had been deliberately conceived and used as an engine for the furtherance of German political ambitions, as the Allies claimed, is open to debate. Nevertheless operatives in the field described how Germany had many 'agents' in foreign countries. These agents of all classes and nationalities were importers, exporters and merchants who remained in close touch with German banks. In the years before the war, these banks had backed large and small German traders and also helped local traders of non-German nationality. When war came, German managers were able to direct the operations of their dependants in the task of obtaining supplies for Germany and keeping her export trade alive. Germans abroad had often been encouraged to naturalise themselves as foreign citizens which gave them an entrenched position.³⁶ German industrialists had devised methods before the war of using company branches situated in Switzerland as contact offices for branches elsewhere, in an attempt to keep operations going.³⁷ The German export organisation was not only viewed with pride in the German commercial world but

³⁵ FO 382/1630/f59801/59801: Foreign Office minutes, March 1917.

³⁶ Ernest Hamblock, *British Consul: Memories of Thirty Years Service in Europe and Brazil* (London, 1938) pp. 225 and 250. Hamblock thought that the black lists did more harm to the British cause than any dispute about contraband. They impinged the sovereignty of neutral countries in which they operated. The first appearance of American names on the British statutory list brought official complaints from Washington. See Siney, *The Allied Blockade of Germany 1914-1916*, pp. 146-7.

³⁷ See Gerald Feldman, 'Hugo Stinnes and the Prospect of War Before 1914,' in *Anticipating Total War* Boemeke et al (eds.) (Cambridge, 1999) p. 80.

also enjoyed an unusual degree of support and favour from the German Government. In the final analysis the Foreign Trade Department concluded:

To an organisation so constituted, so disciplined, and so supported, it became possible to take longer views and lay deeper plans than were in the power of the independent commercial houses of other countries, to incur losses for many years in the hope of eventually driving their rivals from an existing market, or heavy expense with no prospect of an immediate return in order to open up or create a new one.³⁸

In addition there were many people in neutral countries hostile to British economic interference and sympathetic to German traders. In October 1914, in response to British advertisements in trade journals, an organisation calling itself the Argentine Commission in Favour of German Goods sent letters to British firms declaring it had always been satisfied with the quality and price of goods from Germany and would continue to buy goods from her once the war had finished.³⁹ It was thought that the frugality and energy of the German merchant, backed by the power of German industry, finance and diplomacy would again make Germany a powerful commercial rival.⁴⁰

Conclusion.

In formulating the use of the statutory black list as a commercial weapon against Germany, the blockading authorities concluded that no merely destructive war measures could permanently destroy the menace of German commercial organisation. They claimed that German organisation had secured control of some of the world's key markets

³⁸ FO 395/45/195361/95361: 'Our War on Enemy Trade' by the Foreign Trade Department, May 1916.

³⁹ FO 368/928/80397: Consul in Buenos Aires to the Foreign Office, 27 October 1914.

⁴⁰ FO 368/1656/117626: Report on present and post-bellum conditions of the US market in relation to German imports and expected Allied competition by the German Consulate in Philadelphia, 4 May 1916.

and had obtained a dangerous degree of influence over the export trade of other nations. Such control was used to hamper and divert the supply of goods to serve German interests and to promote German political aims for world domination.

It was a dangerous policy to cut off the supply of British goods to German trading houses overseas in the absence of alternative British import houses. This policy could only be safely adopted if new channels of trade had been constructed before the old ones were closed down. Consequently it was necessary for the destructive policy to be accompanied by a constructive policy for the expansion and improvement of existing British facilities for trade. The constructive policy involved providing aid to British firms to replace enemy agents with non-enemy agents, providing assistance to British firms to expand or strengthen their organisation for exporting and giving encouragement to co-operation between British financiers, manufacturers, merchants and shipping lines for the capture of enemy markets. Yet, as we shall see, the conditions were not right for such construction with capital diminishing and material, men and ships required for war purposes. Wartime expansion of British commerce was inseparably connected to the provision of easy banking facilities, the establishment of direct shipping communications with Britain and the prompt fulfilment of orders. All three of these necessary factors were compromised by the disruption of the war.

II

Exporting for England: the attempt to destroy Germany's overseas trade connections.

Pre-war naval planning had for many years involved the declaration of a close blockade of the German coastline in the event of any war between the two countries. This would have the effect of cutting all overseas commerce to and from Germany. In 1912, however, the Admiralty finally recognised that with the advent of modern naval weapons, such as the submarine and mines, a close blockade would be impossible to enforce and settled for a long distance blockade across the North Sea and the English Channel.

The potential immediate impact was thought enormous as at the outbreak of war around 60% of German exports and 70% of her imports were sea-borne.¹ Soon after the declaration of war the German merchant marine fleet was swept from the seas by the Royal Navy to spend the war holed up in neutral or home ports. German shipping was only free in the Baltic and the majority of neutral shipping was not prepared to run the risk of defying the Allied blockade and possible capture by entering German ports. However after the initial dislocation German trade reorganised itself and switched to neutral vessels with the bulk of trade running via neutral ports, such as Rotterdam. Enemy goods on a neutral ship were still exempt from capture under the Declaration of Paris of 1856 and neutral ships on outward journeys were not

¹ Figure from Cd. 9092, *Report of the Committee on Shipping and Shipbuilding Industries after the War* (1918) pp . 90-92.

detained at all by British naval blockading authorities.² During October-December 1914 Germany exported to the United States \$26m of goods compared with \$47.2m for the corresponding period in 1913. Germany was maintaining over half the value of her export trade to America.³ New York had also become increasingly important as a distribution point for German goods to South America and the Far East.

It was not until the Order in Council of 11 March 1915 that decisive action was taken to prohibit German exports. The Order gave the British the right to seize all goods with an enemy destination or of enemy origin or goods which were enemy property. They determined to stop all goods which could be proved to be going to, or coming from, Germany. The effect of the Order on German exports made it one of the most successful actions by the blockading authorities, for German overseas trade was considerably curtailed within a matter of months. Goods ordered and paid for before 1 March were allowed free passage until 1 June, after which certificates of origin were needed for neutral exports to pass unhindered through British naval lines.

A new committee, the Enemy Exports Committee, was formed to supervise the task. It consisted of representatives from the Foreign Office, Admiralty and Board

² The Declaration of Paris stated that 'neutral flag covers enemy goods, except contraband' and 'neutral goods, except contraband, are not subject to seizure even under enemy flag.' Before the war the British Government believed its interests lay in maintaining neutral rights rather than seeking to broaden its interests as a possible belligerent so that Britain could derive full advantage from neutrality during a war between other states and continue to trade freely. This had obvious disadvantages if Britain were a belligerent. See Marion Siney, *The Allied Blockade of Germany 1914-16* (Michigan, 1957) chapter 1. The Declaration of London (1909) recognised a distinction between absolute contraband ('liable to capture if it is shown to be destined to territory belonging to or occupied by the enemy, or to the armed forces of the enemy'-Article 30), conditional contraband ('liable to capture if it is destined for the use of the armed forces or of a government department of the enemy state, unless in this latter case the circumstances show that the articles can not in fact be used for the art of war'-Article 33) and free goods. Enemy conditional contraband was subject to the doctrine of 'continuous voyage' which meant it could be confiscated if there was good reason to believe it would be put to warlike use. Neutral conditional contraband was exempt from continuous voyage. The Declaration specified articles in these categories. The list of articles not allowed to be declared contraband included raw cotton, wool, jute, hemp, oil seeds and nuts, rubber and metallic ores (Article 28) which were all items of great military value to Germany during 1914-18. See Maurice Parmelee, *Blockade and Sea Power* (London, 1924) Appendix 1 for the full provisions of the Declaration of London. The Declaration was not ratified by Britain but morally compromised Britain's ability to place an effective blockade on Germany.

of Trade and sat daily at the Foreign Office. Its composition was similar to that of the Contraband Committee, the difference being it dealt with the question of ownership rather than destination.⁴ The manifests of outward bound vessels were reported to the Committee daily and if necessary they demanded certificates of neutral origin through the Foreign Office.⁵ In addition, throughout 1915 agreements were concluded with Scandinavian shipping lines in which they gave guarantees to refuse all cargoes of German destination or origin.

During the course of the war German exports dropped in value from 10,900 million marks in 1913 to 3,000 million marks in 1918.⁶ The Allies could not prevent exports to neutral countries adjacent to Germany⁷ and some exports continued to pass through the parcel post.⁸ Overseas trade, though, had been reduced to a minimum.⁹

Max Müller, an intelligence official, stated in June 1915:

In only ten months of war Germany has been reduced to the position of a community commercially and industrially isolated. Very little of the

³ Runciman MSS WR 144: 'Stopping Germany's Export Trade During the War' by F. Leverton Harris, July 1915. During January-March 1915 German exports to the US were valued at \$27.7m compared to \$47.3m during the same period in 1914.

⁴ Ships suspected of carrying goods with an enemy destination were detained and sent into a British port by the Royal Navy. The ships manifest was sent to the Contraband Committee who used information supplied by the War Trade Intelligence Department to decide whether to release the ship, request further information or send the cargo to a Prize Court. Cargoes with adequate guarantees against re-exportation were allowed to proceed. Ernest Pollock chaired the Committee from 1915-17.

⁵ Their workload was lighter than the Contraband Committee, scrutinising five or six cases a day. The Contraband Committee examined twenty or thirty manifests daily, some of which contained more than 500 entries. A.C. Bell, *A History of the Blockade of Germany, 1914-1918* (London, 1937) pp. 249-50. Also see Cd. 8469, *Report of the Committee on the administration of the Order in Council of March 1915*. The Enemy Exports Committee was chaired by F. Leverton Harris, a Unionist MP who had been vigorously opposed to the Declaration of London. He became parliamentary under-secretary to the Ministry of Blockade in June 1916 and he was succeeded on the Committee by Sir Alfred Bateman.

⁶ Figures from D.T. Jack, *Studies in Economic Warfare* (London, 1940) p. 128.

⁷ However although native products (fish, meat, cheese, eggs, butter) continued to pass between Holland and Germany, goods which had to be re-exported reduced. Marion Siney, *The Allied Blockade of Germany 1914-1916*, Appendix G, Selected Statistics on Dutch Exportation to Germany 1914-1916, p. 271.

⁸ In a memorandum entitled 'Traffic in Contraband and Enemy Goods sent by Parcel Post,' (19 June, 1915) Lord Crewe warned that trade would continue through this channel. On 22 June the Cabinet decided to take no action. It was feared that any interference with the mail may lead the German authorities to refuse to allow parcels to reach British prisoners of war. Runciman MSS WR 144.

⁹ Exports from Germany to Spain had fallen from 185,370,000 pesetas (1913) to 20,995,000 (1915). Similarly for Brazil £11,737,000 to £458,000; Chile (pesos, gold) 81,035,995 to 9,818,052; Uruguay (pesos) 7,811,135 to 749,375 and China (tael) 28,302,403 to 160,458. Figures from Bell, *A History of the Blockade of Germany*, p. 407.

20 or 25 per cent of the country's output that formerly went abroad can now be exported.¹⁰

In October 1914 *The Contemporary Review* picked up on the consequences of this by pointing out:

Never before in the world's history has such an opportunity been offered the British trader. Secure at home, and possessing free access to the world's materials, he is presented with the markets of his greatest competitor...It is difficult to realise that this competition has suddenly ceased - that it will not exist at all for a considerable period, and that even when the war is over it will be long before it can again become as fierce as in recent years.¹¹

British traders saw the opportunity to come to terms with the Anglo-German trade rivalry they had been unable to deal with before the war. It was confidently asserted that Britain would be free to pick up much of the Austro-German export trade, worth £358,000,000 in 1912. There was an obvious Germanophobic tone to the policy. In 1915 a book entitled *The Coming Trade War* described

The captivating notion of smashing the enemy's trade, and of being avenged upon the German 'dumper' with his cheap and nasty goods, and even nastier methods, and for all the undercutting and devious trading of which we have been the victims.¹²

Similar sentiments were expressed in a book entitled *The Coming Economic Crisis* (1918) showing that trade war was thought of as a more tangible war aim than vague notions of the destruction of Prussian militarism.

Germany's trade ambition was the real cause of the war, it is the object of the war, and it will outlast the war...We have to go into this new fight with the relentlessness of purpose which alone can insure us against commercial destruction. If we do not wrest trade from

¹⁰ Similarly in an extract from a letter from O. Bergmann Company, Hamburg to their Yokohama house on 22 April 1915: "As far as commercial war is concerned, England has at the present time far and away the upper hand, for the export and import of our overseas goods, via neutral lands, is to-day practically out of the question." Runciman MSS WR 144: 'Stopping Germany's Export Trade During the War' by F. Leverton Harris, July 1915.

¹¹ Leo G. Chiozza Money, 'British Trade and the War,' *Contemporary Review*, 106 (1914) p. 475.

¹² T. Farrow and W. Crotch, *The Coming Trade War* (London, 1916) pp. 2-3.

Germany, Germany will wrest trade from us. One of us has to be vanquished.¹³

The Board of Trade was concerned with replacing German and Austrian goods in home, allied and neutral markets with goods of British manufacture. 'Exchange meetings' were organised in order to show British manufacturers samples of German and Austrian goods competing with British products in export markets and to bring British manufacturers into direct contact with purchasers who were normally supplied by Germany. In the first instance goods such as toys, glass, china and earthenware, fancy goods, cutlery, electro-plate and clocks, enamelled, aluminium, tin and brushware, jewellery and haberdashery were dealt with.¹⁴ Reports from the Diplomatic and Consular Service were published giving details of openings in countries for goods formerly supplied by Germany. In Tokyo the commercial attaché, Arthur Crowe, responded to the Commercial Intelligence Bureau of the Board of Trade identifying areas in which British manufacturers could compete against German goods, such as drugs, iron and steel, worsted yarn and electrical machinery.¹⁵ British consulates abroad urged commercial travellers to push British goods and to print catalogues and prices in native languages.¹⁶

In May 1915 a Trade Fair was organised in London to rival the German Leipzig Fairs. These were thought to have been advantageous to German trade as buyers had the opportunity to inspect articles without travelling to individual firms.

¹³ H.J Jennings, *The Coming Economic Crisis* (London, 1918) pp. 131-2.

¹⁴ Runciman MSS WR 142: 'The Capture of Enemy Trade', 31 December 1914.

By 1918 the Board of Trade had 15,000 samples from 80 different foreign markets. *Board of Trade Journal*, 100 (1918) pp. 265-6. Similarly unofficial organisations such as the Trade and Industry Committee of the Royal Colonial Institute attempted to provide a link between manufacturers in Britain and opportunities in overseas markets. See the RCI Journal, *United Empire*, 5/12 (1914).

¹⁵ FO 371/2020/54444: 'German Trade in the Far East' Crowe to Worthington, 20 August 1914. FO 368/921-46796. 'Extension of British Trade with Abyssinia.' 5 September 1914, "British agents should be found at Aden in order to take goods instead of German and Austrian, at present idle."

¹⁶ FO 368.928 51362: 'German Export Guide, 1913' from the Consul in Buenos Aires, 24 August 1914. The guide was published and distributed free in the River Plate countries and printed in Spanish.

Meanwhile manufacturers could collect a vast number of separate orders at once, enabling them to plan requirements for finance and plant in advance. It was hoped that the Fair would consolidate relations between British manufacturers and buyers.¹⁷ Over the course of two weeks 26,281 people visited the Fair but only 285 were foreign.¹⁸ However, the desire to replace German goods in Britain was just as important as the desire to supplant them in export markets abroad. Businessmen enthusiastically took up the challenge. At a meeting of the Sales Managers Association on 10 September 1914, 800 manufacturers, merchants and businessmen “called to give impetus, cohesion and direction to the general desire of British manufacturers and traders to carry a vigorous warfare into the arena of commerce, and to capture the world trade hitherto held by Great Britain’s enemies.”¹⁹

The policy outlined by the Foreign Trade Department essentially had two aspects, one destructive and the other constructive. The destruction of German trading connections was the responsibility of the blocking authorities. The constructive element was largely the responsibility of the country’s merchants and manufacturers to provide alternative goods and channels of supply. The businessmen of Britain had displayed a willingness, whether for altruistic or patriotic motives, to play their role. However their efforts would be hindered by two main obstacles; disputes from within the blockade administration over the question of exports and secondly, the impact the immediate war effort was to have on exporting industries.

¹⁷ W.H. Clark, ‘The Work of the Department of Commercial Intelligence of the Board of Trade,’ *British Electrical and Allied Manufacturers Association Journal*, 3 (1917) p. 74.

¹⁸ Figure in A.D. Harvey, *Collision of Empires* (London, 1972) p. 286. The Fair subsequently became an annual event.

The blockade administration and the question of exports.

The administration of the blockade was by no means a coherent and unified effort. Blockading authorities represented a wide variety of different departments and interests, often working towards their own individual goals without regard or recourse to each other. Nowhere was this fact more amply demonstrated than in relation to the provision for exports during the war.

The two main direct hindrances to exports came from the desire of government authorities to conserve supplies of any goods considered vital to the conduct of the war effort in Britain and from blockade measures which forbade the exportation of commodities likely to find their way into enemy hands. The responsibility for administering these dual restrictions fell to the War Trade Department (WTD). The Department had originated as the Inter-Departmental Committee on Trade with the Enemy, appointed on 4 August 1914. Its work largely consisted of granting, or refusing, licences for the export of prohibited and restricted goods which were then issued by the Privy Council Office. As the volume of work increased the Committee was replaced by the War Trade Department, created by Treasury minute on 17 February, 1915. The WTD consisted of two separate sections; the Trade Clearing House Section²⁰ and the Main Licensing Section. The latter had a Main Licensing Committee which was inter-departmental in character and considered applications for, and matters relating to, export licences. The work was mainly carried out by three sub-

¹⁹ Milner MSS Box 153: The meeting opened with a chorus of 'Rule Britannia'.

²⁰ The Trade Clearing House (under Henry Penson) operated as an commercial intelligence section collating information from government agents, cable censorship and intercepted letters. In December 1914 Admiral Hall had created an unofficial body to censor overseas post. Although no traces of espionage were found it did reveal information about German purchases passing through neutral countries. With the founding of the WTD an intelligence division was included to act as a clearing house for commercial information. In February 1916 it became the War Trade Intelligence Department and was attached to the Ministry of Blockade, although it remained officially subordinate to the WTD until January 1917. See Eric Goldstein, *Winning the Peace* (Oxford, 1991) p. 48.

committees representing the Admiralty, the Board of Trade, the Board of Agriculture and the War Office. Every commodity on the prohibited or restricted list was under the supervision of one of these departments and they gave a more detailed examination to applications for licences. There were also committees dealing with particular commodities such as the Rubber and Tin Exports Committee, the Coal Exports Committee and the Cotton Exports Committee. Attempts were made to co-ordinate similarity of treatment for particular commodities by regular meetings between the Main Licensing Committee and the various sub-committees. The licences were then issued by the Privy Council Office.²¹

The procedure may have been thorough, but it was not conducive to the speedy issue of export licences. Traders and Members of Parliament alike complained of excessive interference with trade and legitimate exports. Sir Alfred Mond launched an attack in the Commons:

Government Departments have set up Committees which have done their very best since the war started to kill the export trade of the country in a most unreasonable way...There is not a practical man of business in this country who is not aware that a large amount of valuable export trade has been lost to this country by quite unnecessary and foolish restrictions, and to this day these restrictions continue. The delays in granting licences has caused us to lose markets...surely it would be worth while to make some practical effort to stop the hampering of export trade which is going on through being dealt with by people who have really no conception of that trade.²²

²¹ Runciman MSS WR 142: 'Memorandum on the War Trade Department' by Emmott, August 1915. A statistical branch collected statistics pertaining to the blockade. It used pre-war import statistics to fix the level of 'rations' for the neutral nations and gathered figures from official publications (customs and shipping records) of Allied and neutral countries to ascertain the extent to which the rationing was complied with. In 1916 it became a sub-department, the War Trade Statistical Department and transferred to the Ministry of Blockade in January 1917. The WTD was also responsible for the upkeep of the Consolidated Black List, the secret register of all individuals and firms who were considered, or suspected as being, enemies and to whom all facilities for shipment and cabling were denied. It also had a secondary aim of causing damage to Germany's overseas business interests.

²² 74 H.C. *Deb.* 5s. col. 637, 23 September 1915. Similar sentiments were echoed: "I am certain that if the Government want, as they must do, to foster our export trade, they would do a great deal by getting rid of old restrictions which are perfectly senseless." Mr Holt, col. 691. Mond, a chemical industrialist (later the chairman of ICI) was initially a liberal free trader. As First Commissioner of Works (1916-21) he became a 'total war' advocate.

Requests from exporters to the Board of Trade for assistance were common. A letter from the firm of Joseph Porrit and Sons was typical. They complained that their business was being very severely handicapped as they had been unable to obtain a general licence for a quantity of felts and jackets they had for export to Norway. They thought they at least ought to have the same privilege as their competitors.²³ Another trader who applied for a licence in October 1914 and had still not received it in January 1915 wrote

we would ask you to consider whether this is treatment British manufacturers should expect from the government who are impressing on the one side upon the manufacturer to capture German trade and on the other are throwing obstacles in the way of the manufacturers so doing.²⁴

The problems were recognised in official quarters. Guy Harben of the War Trade Intelligence Department informed Runciman that various attempts had been made by more enterprising manufacturers to get into the Italian market, but in many cases these efforts had been squashed by the present restrictive regulations with regard to manufacture, export and shipping.²⁵

Lord Emmott, the Head of the War Trade Department, was not blind to the problems his Department created. Early in the war he commented:

There is, too, a great deal of irritation and even consternation in some quarters of the country with reference to the latter prohibitions, and some traders ask indignantly what is meant by 'business as usual' and 'capture of enemy trade' if they are not allowed to deal with new customers and not even permitted in many cases to deal with old ones.²⁶

²³ Runciman MSS WR 124 (2): Joseph Porrit and Sons to Lewis Harcourt (Board of Trade), 20 June 1916. In the Commons Mr Hogge, MP, refuted the claim that it only took a week to get an export licence, saying it had taken him eight weeks to get a licence to export golf balls. 77 H.C. *Deb.* 5s. col. 1436.

²⁴ BT 12/104: Boardman Bros. to the Assistant Secretary of the Board of Trade (Commercial Department), 11 February 1915. Quoted in David French, *British Economic and Strategic Planning 1905-15* (London, 1982) p. 113.

²⁵ Runciman MSS WR 161 (2): 20 June 1917.

In memoranda during and after the war he defended the Department, stating that imperfections in the system arose from unpreparedness for the immense task the Department faced under continual pressure, and from the constantly increasing list of prohibited commodities which increased the burden on staff.²⁷ Yet the problem was more fundamental than mere administrative difficulties. The War Trade Department, claimed Emmott, was the only body (apart from a 'distracted' Board of Trade) which was anxious to keep the export trade functioning without detriment to the blockade. The Service Departments were in favour of curtailing exports for fear that anything should reach the enemy. The Foreign Office wanted to hold up trade with the neutral countries adjacent to Germany to force them to comply with its blockade policy and the Treasury were in favour of limiting exports to France and Italy for exchange reasons.²⁸ Although in theory the WTD had ultimate responsibility for granting licences, in reality a license was never authorised if a related Department objected.²⁹ This ensured political harmony but allowed the often over-zealous restriction of exports to continue relatively unchecked.

The Restriction of Enemy Supplies Committee (RESC) was charged with the task of investigating exports from Britain and imports into neutral countries with a view to preventing supplies from reaching the enemy.³⁰ The difficulty was that the Committee was almost too effective, for whilst the members carried out their

²⁶ CAB 37/132/8: Memorandum by Emmott, 6 August 1914.

²⁷ CAB 15/6/24: Notes by Lord Emmott on the War Trade Department, c.1919. By September/October 1918 the weekly number of applications for licences received had risen to 19,000 with other enquires numbering 13,000. The number of licences issued weekly was around 16,000.

²⁸ CAB 27/44/EDDC.34: 'Restrictive Policy with Regards to Exports', Emmott to Chamberlain, 13 August 1918.

²⁹ Overriding the advice of other Departments would, according to Emmott, "result in commercial confusion and inter-departmental friction if not chaos." Emmott to Balfour. 1 September, 1915. Emmott MSS Box 5.

³⁰ Appointed by the First Lord of the Admiralty on 13 August 1914, its duties were "to examine and watch continually all means or routes by which supplies of food or raw materials might reach Germany and Austria; to report weekly all importations and exportations to and from these countries coming to their knowledge; and to recommend by what methods, financial, commercial, diplomatic and military,

functions with utmost conscientiousness and vigour they failed to take fully into account obstacles faced by other Departments.³¹ The chairman of the Restriction Committee was Sir Francis Hopwood, a career civil servant, dedicated to fulfilling the administrative task set before him without recourse to external concerns. Emmott, on the other hand, had been a leading figure in the Lancashire cotton industry and was consequently a strong free-trader. The two men approached their tasks with different agendas.

In July 1915 a scheme was proposed by Edwin Montagu, the financial secretary to the Treasury, for the reorganisation of all war trade committees and agencies.³² Montagu declared the “present organisation of War Trade problems is confusing and embarrassing, our machinery cumbersome and ill-designed for its work.” He recognised that the WTD was advised, assisted and to an extent controlled by the committees and sub-committees either directly under it or one of the big departments of state. The RESC was supposed to indicate policy but had entirely failed to do so. Each of the big departments of state interested in war trade questions pursued a particularist policy and the WTD had been forced to give the Foreign Office the last word.

The objective of the WTD was to restrict enemy supplies and inflict maximum damage on enemy trade with the minimum of disturbance to trading interests.

Conflict, between departments of state with differing priorities, was inherent in the

they might be hampered, restricted, and if possible stopped. CAB 15/6/5: 'Report on the Restriction of Enemy Supplies Committee' by Lord Southborough (formerly Sir Francis Hopwood), 15 April 1919.

³¹ There were cases of carpets being held up at Customs House because the backs contained jute, 75 H.C. *Deb.* 5s. col. 1211.

The Premier Oil Extracting Mills Ltd. of Hull complained that the Admiralty had placed a ban on the export of castor oil due to fear of shortages. They had 400 tons in store, and with the capacity to make 200/250 tons a week, big stocks were accumulating. If exports were prohibited any longer the mills would have to close. Runciman MSS WR 114 (1): 26 August 1914.

³² Emmott expressed his annoyance to that neither he nor Hopwood had been consulted in the name of efficiency, let alone courtesy. Runciman MSS WR 136: Emmott to Runciman, 7 August 1915.

pursuit of this objective. Montagu suggested that a single minister, who was not the head of an existing main department, should be responsible for all war trade questions. All the current committees and sub-committees would become branches of the WTD, thus restricting the power of committees like the RESC, whose decisions currently vied with the authority of the WTD. There would be four divisions of the new WTD dealing with: Export licences (to which all the commodity sub-committees were answerable), Import Licences, Finance (to which the Trade Clearing House and the Cornhill Committee were answerable) and Restriction of Enemy Supplies (to which the Admiralty Advisory Committee and the Contraband Control Committee were answerable). Asquith agreed with Montagu's proposals, commenting that the existing arrangement appeared to be confused and even chaotic. He recognised that the matter was urgent and the Cabinet approved the scheme with Curzon as head of the reconstructed department.³³

The scheme attracted little enthusiasm at the Board of Trade. Hubert Llewellyn Smith, the permanent under-secretary, thought that a single department independent of all the existing great departments of state was a chimera and, with pragmatic insight, saw no hope of speeding up the administrative process. Curzon himself was obliged to advise against the creation of such an office and admit he was not qualified to run it. He drew parallels with the Ministry of Munitions, stating that the new department would only be effective if it was created in response to admitted public demand; if it continued to be strongly supported by all departments concerned; if it was accepted as a matter of urgent public necessity by the Cabinet and if it was

Runciman replied "that you should have been kept out of even the preliminary discussions is almost incredible. This is the doing of Montagu." Emmott MSS Box 5: 9 August 1915.

³³ Asquith MSS Box 29: Montagu's proposals of 21 July and Asquith's comment of 22 July 1915.

created by special legislation. Curzon was unwilling to undertake the ‘drudge’ work involved in organising the new department and ensuring its effective running.³⁴

Emmott complained that the proposals for reorganisation must have been written from a theoretical standpoint with no practical working knowledge of the Licensing Section of the WTD. The only policy being pursued, apart from the agreed plan of conserving necessary home supplies, was the rationing of adjacent neutrals. This policy had broken down with respect to many commodities as greater supplies than normal reached these countries from other sources. The question then was whether the Government acquiesced in handing Britain’s trade to her chief rivals or retained some control of trade and benefit exporters by granting licences for moderate quantities. The RESC was not competent to deal with this question as it was too restrictive in outlook and had no consideration for the wider interests of the country.

Whilst Emmott agreed with some of Montagu’s sentiments, namely the lack of parliamentary representation in the Commons to explain and defend war trade policy, he differed as to the best method of dealing with the central problem.³⁵ Emmott thought the best plan was for a powerful committee of 2-3 cabinet ministers to dictate economic policy to which the licensing authorities could have recourse.³⁶ A single cabinet minister with plenary authority would still be in opposition to the policies of the various concerned departments. What was needed was co-operation over licensing, not further conflict. It is hard not to agree with the resigned view of Hopwood that the present system, or lack of system, had become too deeply rooted to extirpate and that any attempt to do so would meet with failure. Curzon’s negative response meant that

³⁴ Asquith MSS Box 29: Minute by Llewelyn Smith of 24 July 1915. He was joined in this view by his colleagues Sir George Barnes and Fountain.

³⁵ As First Commissioner of Works since 6 August, 1914 Emmott had a seat in Cabinet and originally ran the WTD along with this post. In July 1915 he complained to Asquith that the pressure of both posts was too great and the duties need separating to be properly dealt with. In any event he left the

the Montagu scheme was dropped and Asquith tried to achieve the desired result by simpler and less ambitious methods.

To this end the War Trade Advisory Committee was created on 20 September 1915. It included the chairman of all the committees responsible for contraband work and attempted to co-ordinate the blockade machinery. Its duties were

to advise on the restriction of enemy's supplies, to co-ordinate the administration of the War Trade Department, the Contraband Committee and the Restriction of Enemy Supplies Committee and the Committees controlling the export of coal, cotton, rubber and tin and to advise the Cabinet on questions of policy arising therefrom.³⁷

The response to the need for simplification had been to create another body, thus adding to the layers of bureaucracy.

There was effective co-ordinated action to identify problems in the system but less success in dealing with them. A conference of relevant departments identified several instances of overlapping in administration. The International Commission purchasing for the Allied Governments (which granted licences to traders in Britain making supplies for the Allies) had granted a licence to export aeroplane engines although the consignee had been objected to by the Foreign Office and the WTD. Meanwhile the Foreign Trade Department of the Foreign Office was placing names of persons on the black list to whom the WTD was prepared to grant licences. Also, although the Treasury minute of 17 February 1915 had given the WTD jurisdiction over import and export licences, the Board of Trade was endeavouring to handle and control import licences through its Department of Import Restrictions.³⁸ This

Office of Works on the formation of the First Coalition Government. He subsequently remained as Head of the WTD but without a Cabinet seat.

³⁶ Emmott MSS Box 5: Emmott to Asquith, 13 August 1915.

³⁷ It was chaired by Lord Crewe until 24 February 1916 and then until 21 May 1917 by Sir Francis Hopwood. CAB 15/6 5: 'Report on the War Trade Advisory Committee' by Lord Southborough, 15 April 1919.

³⁸ FO 382 1151/38423: Notes of a conference with Lord Robert Cecil, Emmott, Highmore, Hopwood and Bridgeman, 25 February 1916.

Department, nominally under the control of the Board of Trade, had been established to economise on tonnage but in doing so created a conflict of authority.³⁹

Emmott was critical of war trade policy, claiming that restrictions on trade were imposed too suddenly and too rigidly. The total embargo of a certain commodity was often out of proportion to the results achieved. Restrictive policies only had the effect of stimulating the development of replacement industries to the detriment of British trade after the war. Germany took care to provide commodities for those traders who sympathised with her, but British embargoes were so rigidly enforced that friends and enemies alike were affected.⁴⁰ He complained after the war there had been no Cabinet or higher authority able

to survey our home and overseas trade as a whole to balance the exigencies of the Blockade against the urgent claims of finance and exchange...The Departments of His Majesty's Government worked too much in watertight compartments and the result on our export trade during the recent war was in the opinion of the War Trade Department damaging to a quite unnecessary degree.⁴¹

There had never been clear guidance as to how far the trade and national finances of the country were to be considered in reference to licensing.⁴²

³⁹ Certain fabrics required by English embroidery manufacturers, given licence for export to Switzerland for manipulation and a special finish before returning, were subsequently refused re-importation. The WTAC sub-committee 24 reported that it was important to keep import and export licensing authorities together. CAB 39/83: 20 September 1916.

⁴⁰ He complained of the "constant chopping and changing of Foreign Office instructions and the ludicrous short-sightedness of many of the requests we receive", especially from those officials lower down in the Foreign Office organisation. The Foreign Office requested the WTD to hold up all oils and fats bound for Spain because the former were pressing her to put olive oil on the prohibited list. Meanwhile the commercial attaché to Spain implored the WTD to end delays in licences for oils and fats as the delays were having a deplorable effect politically. Emmott MSS Box 5: Emmott to Asquith, 13 August 1915.

⁴¹ CAB 15/6/24: Notes by Emmott on the War Trade Department, c.1919.

⁴² The Bedford Street Weaving Company complained to the Foreign Office that the War Trade Department had held up shipment of goods to Scandinavia on the grounds that the quantities were abnormal. The company stated that the increase was due to business appropriated from Germany and Belgium. "As we have been urged by the Government, on more than one occasion to keep up the exports, it is doubly disappointing that now we have succeeded in securing a larger position of this business than normally comes to this market, that we are prohibited by the WTD from shipping the goods." The company considered dropping the markets altogether until the war was over unless it could be assured that goods could be shipped when ready. FO 382/1151/135041: 11 July 1916.

The fate of British export trade to neutral countries adjacent to Germany.

As normal British exports declined due to the vicissitudes of war, one branch of trade,

British re-exports to neutral countries adjacent to Germany, expanded greatly.

Between the last quarters of 1913 and 1914 re-exports to Norway rose by 263%, to

Sweden and the Netherlands by 294% and to Denmark by an enormous 935%.⁴³ With

markets for British traders diminishing it was important that they made the most of

those that were available. British traders sought to supply this new trade which

compensated for the closure of markets in Germany, but which in reality was little

more than indirect trading with the enemy.

Some of the increase in exports to the northern neutrals was to compensate for

goods they could no longer obtain from the Central Powers but there was little doubt

that many of the supplies eventually made their way to Germany.⁴⁴ The British

authorities were concerned with preventing the re-exportation of contraband goods

from the northern neutrals to Germany and sought to control the trade of neutrals

accordingly. Cargoes from neutral countries bound for the northern neutrals were held

up and guarantees from neutral consignees that the goods would remain within the

neutral country were required before release. All shippers of goods from the United

Kingdom had to present certificates of destination to the customs authorities if they

were trading with any port in Europe, except in Russia, France, Belgium, Spain or

Portugal; but these certificates were not inspected as thoroughly as the manifests of

neutral ships. British merchants gave a simple declaration concerning ultimate

⁴³ Figures from Bell, *The History of the Blockade of Germany*, p. 186. Big increases were recorded in coffee and tea, corn and grain, cotton (raw), soda ash, soda compounds and oil nuts. Collectively these nations were known as the 'northern neutrals.'

⁴⁴ "...a great increase in exports to neutrals adjacent to Germany cannot be contemplated without the considerable risk of some goods reaching the enemy." CAB 37/132/8: Memorandum by Emmott, 6 August 1914.

destination and needed no guarantee from a neutral consignee. Since British exports to neutral ports were subject to fewer restraints, the northern neutrals began re-routing certain branches of their trade through Britain.

The Foreign Office expressed its fear that the Government could be exposed to the charge of giving preferential treatment to British exporters, in contravention of the Order-in-Council of 11 March 1915, by allowing goods to be exported to countries adjacent to Germany without importers being compelled to give guarantees and undertakings. The Board of Trade maintained that the licensing of all free goods would not lead to greater control and would only interfere with legitimate trade and accentuate congestion at ports. In any event exports to Holland, Denmark and Switzerland were already covered by War Trade Agreements. Leo Chiozza Money, of the War Trade Advisory Committee, did not believe that organisations such as the Netherlands Overseas Trust could be relied upon to conduct operations in Britain's interest. He advocated a strict, universal system of licensing, even where rationing operated and trade organisations existed.⁴⁵

Neutral shipments were held up and confiscated whilst British traders continued to trade relatively unopposed, leading to suspicions that the blockade was devised to further British trade. The United States complained that their trade was being interfered with, leading to a depression in certain industries which depended upon European markets.⁴⁶ The Contraband Committee reported on 20 March 1915,

⁴⁵ CAB 39/76/WTAC Sub-Committee 17: 'To consider the question of further control over "free goods" exported to countries adjacent to Germany'. Foreign Office memorandum of 30 March, Board of Trade comments of 14 April and memorandum by Money of 20 June 1916.

These tough measures adopted by Money are in contrast to his optimistic predictions of a trade-war in *The Contemporary Review*. A journalist and Liberal MP, he was a member of both the RESC (1914-15) and the WTAC (1915-18). He eventually became Chairman of the Tonnage Priority Committee (1917-18).

⁴⁶ The British Government responded by publishing trade figures which showed that the value of American exports to Europe had increased. Comparing figures in the month of January 1915 with those for January 1914, exports for Norway rose from \$700,000 to \$4.2m, for Sweden from \$1.1m to \$9.9m, for Denmark from \$1.7m to \$6.5m, for Holland from \$9.4m to \$14.6m and for Italy from

there appears to be a very general impression in America, and other neutral countries, that, whereas Great Britain is holding up contraband going to countries adjacent to Germany, she is herself, it is alleged, in order to encourage British trade, granting licences for quantities of contraband and prohibited goods for exportation from the United Kingdom to countries adjacent to Germany.⁴⁷

The British Government complained that the northern neutrals were becoming bases for supply for the Central Powers and that British supplies helped to make this possible.⁴⁸ This indirect trading with the enemy occurred due to a lack of Government guidance at the outset of the war, which in turn resulted from a conflict between the policies of economic expansion and aggression in certain markets and the complete cessation of trade in others. The Board of Trade issued warnings to traders but it was felt that the fault lay with the Government:

Had the Government in the past shown more determination not to allow any supplies to reach the enemy...had they taken steps to bring home to the commercial community the truth that it is unpatriotic to accept suspiciously large orders from neutral countries - they would not now find themselves in so disagreeable a position...As it is, merchants who have obtained licences to export huge quantities of tea, coffee, linseed oil and other commodities to neutral countries, are able to solace their consciences by reflecting that they are not obliged to be more patriotic than the Government.⁴⁹

\$7.4m to \$24.6m. Figures in Cave MSS 62466: 'Memorandum respecting American ships and cargoes detained at British ports' (Annex 1) of 14 May 1915. Also see Cd. 7816, *Correspondence between His Majesty's Government and the United States Government Respecting the Rights of Belligerents* (1914-16).

⁴⁷ Cave MSS 62465: Minutes of the Contraband Committee, 20 March 1915.

⁴⁸ "His Majesty's Government consider that the abnormal increase of supplies imported by neutral countries...justifies their assumption as to the ultimate destination of many items of cargo consigned to one or other of the countries in question on vessels which they have detained, but they would call attention to the fact that it is only when they have believed themselves to be in possession of conclusive evidence of enemy destination of cargo that they have seized such cargo." Cave MSS 62466: 'Memorandum respecting American ships and cargoes detained at British ports' by the Foreign Office, 14 May 1915.

⁴⁹ Editorial in *The Times*, 18 December 1915.

The Board of Trade issued a warning in December stating that "they have reason to fear that in some instances there may have been cases of Business laxity and that goods have reached this country or have been exported from it which proper inquiry would have shown respectively to have been of enemy origin or intended for enemy consumption." *Board of Trade Journal*, 87 (1914) p. 760. This relationship between 'business as usual' and 'war socialism' is examined in Jonathan S. Boswell and Bruce R. Johns, 'Patriots or Profiteers? British Businessmen and the First World War,' *Journal of European Economic History*, II/2 (1982) pp. 423-445.

The fact was that during the first six months of war the Government had not yet decided to pursue a campaign of unlimited economic warfare and elements of the Government were still attempting to give consideration to the nation's trading interests.⁵⁰ British merchants had continued to trade with France during the Napoleonic War as it was considered a valuable source of war revenue and important for British commercial supremacy to remain unchallenged. In 1911 a sub-committee of the Committee of Imperial Defence, under Lord Desart, had considered the problem of trading with the enemy. The Admiralty had admitted that in a war between Britain and Germany indirect trade could not be eradicated. The Board of Trade agreed that direct trade between Britain and Germany should be prevented but that there was nothing to be gained from ending indirect trade. If this happened neutrals would take the place of British traders and with it any profits. The Sub-Committee recognised that tradition and public sentiment guided policy in times of upheaval and that public opinion would probably demand a general prohibition of trade.⁵¹

The Government was reluctant to intervene in the economy as a prosperous state of trade, regular employment at good wages, and high profits for the Revenue to tax and the Treasury to borrow, were regarded as essential conditions for the successful prosecution of the war.⁵² As the *Statist* declared: "We are governed by idle rich men...[who] have always been careful, time out of mind, to train us up in the belief that England has always muddled through and always will."⁵³ Manufacturers

⁵⁰ The question as to whether Government trading policy was to be governed solely on hatred of the enemy or was to take into account pragmatic factors (even at the cost of British exports reaching the enemy) is discussed in two similar articles by John McDermott, 'Total War and the Merchant State: Aspects of British Economic Warfare against Germany, 1914-16,' *Canadian Journal of History*, XXI (1986) pp. 61-76 and "'A Needless Sacrifice': British Businessmen and Business As Usual in the First World War,' *Albion*, 21/2 (1989) pp. 263-282.

⁵¹ CAB 16/18A: Report and Proceedings of the Standing Sub-Committee of Imperial Defence on Trading with the Enemy, 10 September 1912.

⁵² F.M.H. Lloyd, *Experiments in State Control* (Oxford, 1924) p. 261.

⁵³ Quoted in S. Hurwitz, *State Intervention in Great Britain*. (New York, 1949) p. 63 (footnote).

and traders, brought up in the laissez-faire tradition, believed in freedom of trade and non-interference by the state.

Attention focused on products known as 'enemy comforts' such as tea, coffee, tobacco and cocoa. The debate arose as to whether it was desirable to allow these products, not thought to be of specific military value, through in order to help British trade, earn valuable export revenue and support the exchange rate or to prevent these goods reaching Germany entirely. The French and many hard-liners in Britain were anxious to have an outright ban on all goods to Germany. However many in Britain believed that Germany should be encouraged to import luxuries, of little military value, and use valuable foreign exchange. There existed a split in the official mind on how to deal with the question of exports and the blockade. Leverton Harris stated in January 1916 that he did not believe all goods reaching Germany aided her prosecution of the war. He disagreed with those who desired to see every conceivable commodity stopped from reaching the enemy. It was more important to prevent Germany from exporting through neutral countries.⁵⁴ Lord Robert Cecil, the Parliamentary under-secretary at the Foreign Office, thought that whilst the blockade on raw materials essential for the manufacture of war munitions should be maintained,

the economic pressure on Germany would be increased by allowing other unessentials such as luxuries to reach her so long as the arrest of her exports continued both because the more luxuries she bought, the fewer necessities she could afford because she would be more tempted to export gold and sell securities.⁵⁵

There were those who thought that Britain should concentrate exports to countries neighbouring Germany in goods that Germany was still exporting in order to deal a blow to German exchange and restrict the only export trade left open to her.

Prohibitions on British (and overseas neutral) exports to these countries simply left

Germany with uncontested markets which the latter used to extort various dispensations on the supply of home products.⁵⁶

The inconsistencies of the Government's policy were obvious, as Emmott explained to Hankey:

It is clear that 'Business as Usual' and crippling German trade are inconsistent. It must not be forgotten also that to begin to curtail very sharply the quantity of goods allowed to be exported will cause a good deal of trouble and dissatisfaction amongst our traders at home.⁵⁷

The problem stemmed from the fact that nobody in the Government had settled upon a firm line of policy.

Coffee and tea were part of the German army field ration and were classed as conditional contraband at the start of the war but there was no restriction on the export of coffee by the Order in Council of 10 August 1914. On 19 December 1914, the Restriction of Enemy Supplies Committee reported that there was no substantial justification for putting a prohibition on the export of coffee in order to hasten the end of hostilities. Nevertheless on 30 July 1915 coffee was placed on List (C) of prohibited exports.⁵⁸ The prohibition seriously threatened Britain's entrepôt trade. Britain imported over one million bags of coffee per year before the war but home consumption was only around 250,000, the rest being shipped on. Not only was Britain left with a stockpile of some 420,000 bags but it was possible that London would lose future distribution trade to New York. During the war London had replaced Hamburg as Russia's main supplier of coffee, a trade that now had to be abandoned. In any case, the success of the prohibition policy was called into doubt as

⁵⁴ 78 H.C. *Deb.* 5s. col. 1309-11, 26 January 1916.

⁵⁵ FO 800/95: 'Our blockade of Germany'. Memorandum to Grey, 19 July 1915.

⁵⁶ FO 382/1151/44998: Memorandum by Mr Snow in commercial despatch no. 314 from Findlay (Christina) to Grey, 23 February 1916.

⁵⁷ Cave MSS 62465: Minute by Emmott to Hankey, 27 March 1915.

Holland was allowed to import colonial coffee direct from the Dutch East Indies which it could now supply to Germany without competition.⁵⁹ At the Foreign Office, Cecil, along with the Restriction of Enemy Supplies Committee and the Cornhill Committee favoured relaxation but the War Office and the French Government dissented. On 6 October 1915 the War Trade Advisory Committee considered the question and decided that whilst coffee should not be taken off the prohibited list, it should not be prevented from going to Germany and the price should be kept as high as possible. The recommendation was accepted by the Cabinet.

The export of tea was prohibited by the Order in Council of 10 August 1914 but removed from the list ten days later. The opinion of the Restriction of Enemy Supplies Committee was that tea was not a life sustaining beverage and withholding it from the enemy was unlikely to have any material effect on the campaign. The re-export of tea to the northern neutrals rose dramatically and it was placed on List (C) in November but only in order to protect home supplies. Exports to Denmark rose from 830,000 lbs in 1913 to 4,422,000 lbs in 1914.⁶⁰ The explanation was that the rise was due partly to exports to Russia via Denmark, but this was not borne out by Russian customs figures. On 8 January 1915, tea was removed from the list and exports continued to rise. The Government must have been aware that supplies were reaching the enemy but considered it beneficial to have the Central Powers exhaust their purchasing power on relatively harmless commodities. It was the French Government early in 1916 who expressed their readiness to prohibit the export of tea. The scarcity

⁵⁸ Runciman MSS WR 144: 'Enemy Comforts. Coffee' by A.R. Kennedy, 10 July 1916. List (C) meant export was prohibited to all foreign ports in Europe and on the Mediterranean and Black Seas, other than those of France, Russia (except the Baltic ports), Belgium, Spain, and Portugal.

⁵⁹ Runciman MSS WR 144: 'Memorandum regarding the Coffee Trade'. Lord Inchcape (Cornhill Committee) to the Foreign Office, 31 August 1915.

⁶⁰ Restriction of Enemy Supplies Committee, 30th Report. Re-exports to Holland had risen from 1,263,641 lbs in September 1914 to 5,508,412 lbs by November, against normal exports in those months during 1913 of 340,696 lbs and 344,868 lbs respectively. Figures in Bell, *A History of the Blockade of Germany*, p. 183.

of tonnage also made it desirable to reconsider policy towards entrepôt trade but the feeling against restriction of import to Britain held sway in the Cabinet. Yet on 28 June tea was once again placed on List (C). Attempts were made to ration tea to the northern neutrals using the actions of the Contraband Committee to hold up shipments and by the refusal of the War Trade Department to issue licences for export from Britain.⁶¹

On 18 November 1914, the Government stated that it had no intention of preventing the export of tobacco from Britain. Exports rose to the northern neutrals, especially Denmark and Holland.⁶² Germany had been a large exporter of tobacco before the war and rises in British exports to northern neutrals could have partly been to make good the deficiency caused by a German export ban. However there is little doubt that some supplies were reaching the Central Powers. Due to restriction of tonnage the importation of tobacco to Britain was stopped on 15 February 1915. Due to the efforts of Sir Leo Chiozza Money, the War Trade Advisory Committee voted to withhold tobacco from the enemy on 6 April despite the fact that Germany could still obtain supplies of tobacco from the Dutch colonies, Bulgaria and Turkey.⁶³ On 4 July tobacco (which included cigars and cigarettes) was added to List (C).⁶⁴

Perhaps the most contested article was cocoa. It was not part of the German field ration but it did contain fat and sugar and was proven to be a valuable source of energy in poor diets.⁶⁵ However the issue involved the British colonies on the West Coast of Africa which depended upon the cocoa crop for their prosperity. The Secretary of State for the Colonies informed the Restriction of Enemy Supplies

⁶¹ Runciman MSS WR 144: 'Enemy Comforts. Tea and Tobacco' by A.R. Kennedy, 12 July 1916.

⁶² Ibid., In Denmark exports had risen from 23,940 lbs in 1913 to 1,781,900 lbs in 1915. In Holland, over the same period, they rose from 367,680 lbs to 3,601,000 lb.

⁶³ CAB 39/17/28th meeting of the War Trade Advisory Committee.

⁶⁴ CAB 39/22/33rd meeting of the War Trade Advisory Committee.

⁶⁵ Runciman MSS WR 144: 'Enemy Comforts. Cocoa' by A.R. Kennedy, 10 July 1916.

Committee on 26th September 1914 that two-fifths of Gold Coast cocoa normally went to enemy countries. On 3 November 1914 the Committee decided not to take any action against cocoa deciding that the damage it would cause to the colonies would be out of proportion to that inflicted on the enemy. Nevertheless on 8 January 1915 the Government placed cocoa on List (C). Traders complained that Britain's entrepôt trade was threatened as overseas trade in cocoa by neutral countries by direct shipment was not interfered with. However it appears that licences for export were granted freely as exports to the northern neutrals continued to grow during 1915.⁶⁶

The authorities were faced with the difficulty of deciding whether the restriction on import to the northern neutrals (and then on to Germany) was desirable and whether, if not desirable, it was possible to stop supplies getting through. At the War Trade Advisory Committee meeting on 6 January 1916, where Sir Leo Chiozza Money pressed for stringent measures, it was decided that cocoa should be treated more severely than other 'enemy comforts'. In order to check supplies to northern neutrals, in excess of their home requirements, shipments were held up and placed in Prize Courts as much as possible.⁶⁷

The strengthening of direct blockade action.

The fate of the 'enemy comforts' is indicative of the ambivalent attitude of the Government towards the blockade and trade. As mentioned earlier it was only with the Order in Council of March 1915, in response to the German declaration of

⁶⁶ Montagu stated in the Commons that there was no prohibition of export, except for cocoa powder. 73 H.C. *Deb.* cols. 8-9, 5 July 1915. Re-exports to Holland rose from 2,205,282 lbs in 1913 to 12,968,688 lbs in 1915. In Denmark, over the same period, re-exports rose from 50,782 lbs to 10,236,755 lbs and in Sweden from 149,737 lbs to 13,757,034 lbs. Figures in Bell, *A History of the Blockade of Germany*, p. 460.

unrestricted submarine warfare, that the British Government began a vigorous economic campaign to prevent all goods reaching and leaving Germany. Throughout 1915 the blockading authorities endeavoured to negotiate voluntary rationing agreements with the northern neutrals, working on the theory that the higher the imports the more likely it was that some of these commodities would find their way to the enemy. The northern neutrals, whilst resenting interference with their channels of trade, agreed to limitations on transit trade in return for the relaxation of Allied policies of detention and seizure of goods at sea. In Holland, the Netherlands Oversea Trust Company was established in December 1914 and worked closely with the British commercial attaché at The Hague. It acted as a consignee for commodities imported through the Allied blockade. It furnished guarantees that these imports, or goods manufactured from them, would not be exported to the Central Powers.⁶⁸

However still no concerted effort was made to limit certain British exports and re-exports to these countries.

⁶⁷ British re-exports in total remained healthy until 1917. Their value in 1915 was £99.1m which compared favourably with the 1913 value of £109.6m. In 1917 they dropped to £69.7m and in 1918 to £30.9m. R.B. Mitchell, *British Historical Statistics* (Cambridge, 1988) External Trade.

⁶⁸ It eventually became consignee for virtually all overseas imports to Holland. It was nominally a private organisation so the Dutch Government did not compromise its neutrality. In Denmark the regulation of imports was controlled by two trading associations: the Merchant's Guild and the Chamber of Manufacturers. The Société Suisse de Surveillance Economique (SSS) performed a similar function in Switzerland. In Sweden and Norway there were no general trading associations for the regulation of war trade and the British reached agreements with different trade associations. See M. Parmelee, *Blockade and Sea Power*, pp. 135-145.

In mid-1917 the Foreign Office enquired about commercial arrangements between Britain and the northern neutrals, and their effect on post-war trade. Rumbold (Berne) replied that the SSS, whilst excellent as a blockade instrument was destructive as regards commerce. Howard (Stockholm) stated that not only had it been impractical to enter into commercial agreements with Sweden which might prove advantageous to the post-war British commercial situation, but the British Government had been compelled to impose numerous embargoes which had prevented the importation of goods into Sweden from the British Empire, and consequently damaged many existing trade connections. Gurney (Copenhagen) reported that difficulty in obtaining British goods had led to a much larger importation of American goods, especially in goods formerly supplied by Germany. These trade connections with US houses would undoubtedly continue after the war. If Denmark was to be financially and commercially independent of Germany it was necessary for trade connections to be fostered and cultivated with other countries. FO 368/1849/f386: Despatches of 9 June, 11 June and 30 August 1917 respectively.

A trade agreement with Denmark at the end of 1915 provided the pretext for critics of the Government, led by Lord Milner, to accuse it of being too lenient in the rationing of northern neutrals and allowing goods to eventually pass through to Germany.⁶⁹ Emmott responded by declaring that whatever was done to suppress exports only had the effect of driving trade which Britain might have won from Germany or held on to herself, into the hands of neutrals.⁷⁰ Cecil stated that the blockade was directed at Germany and not the neutral countries. Evidence was required that any goods stopped on the seas were bound for Germany otherwise they would only be released by a Prize Court.⁷¹ The Foreign Office was accused of pro-German sympathies and *The Times* reported "occult German influence in the very heart of our administration."⁷²

In reality the Foreign Office was far from being Germanophile. They had written to the War Trade Department in early 1916 supporting additions to applications for licences for export to Europe. They endorsed taking steps to penalise firms where it was found that licences for European destinations had been applied for recklessly, such as refusing all licences to the firm for a set period.⁷³ However the Foreign Office was caught between the two divergent opinions of those who wanted leniency when it came to non-essential exports and those who wanted a total ban on

⁶⁹ Sir H. Dalziel and Sir A. Markham, two of the fiercest critics on this issue, attacked the Government for keeping the Commons and public in ignorance regarding the agreement with Denmark which they suggested allowed material to reach Germany contrary to the Government's own Orders-in-Council. 76 H.C. *Deb.* 5s. cols. 1723-1739, 9 December 1915.

⁷⁰ *The Times*, 21 December 1915.

⁷¹ 77 H.C. *Deb.* 5s. cols. 740-1, 23 December 1915.

⁷² *The Times*, 21 December 1915.

Grey refuted suggestions in the Commons that the Foreign Office was releasing cargoes and undermining the blockade work of the Royal Navy. 78 H.C. *Deb.* 5s. cols. 1316-17, 26 January 1916.

⁷³ FO 382/1141/f7134 7134: Foreign Office to War Trade Department, 7 February 1916. However they did not support additional checks on applications going to extra-European destinations which would hamper export trade to countries where the Government was trying to form new connections and hoped to replace German trade after the war.

trade with the enemy. In the absence of firm directives they were attempting to chart a course between the two.⁷⁴

Cecil outlined the policy on rationing agreements with neutral countries:

I do not pretend that even with these precautions you will arrive at a perfect success, but I do believe it is the right policy for this country to pursue, and I believe it not only because...it will succeed in carrying out the policy we have in view of stopping goods going into Germany, but also because...it means that all real, genuine neutral trade goes on almost without interruption, and the only people who are really interfered with are those who are anxious still to carry on trade with Germany.⁷⁵

In February 1916 the Ministry of Blockade was formed. Although the Ministry brought many existing organisations within its orbit it was not merely another attempt to create a refereeing body.⁷⁶ It signalled a hardening of attitude towards the blockade of Germany in the light of the failure and subsequent recriminations over the Dardanelles campaign, the evacuation of the Serbian Army, German successes on the Eastern Front and continued stalemate in France. It undertook the vigilant scrutiny of the transactions of all suspect neutral traders and the listing of habitual offenders, the implementation of rationing schedules for the northern neutrals and agreements with

⁷⁴ The difficulty in pursuing such a policy generally was illustrated by the disagreements between Esme Howard, British minister to Sweden, and M.W.W.P. Consett, the British naval attaché in Scandinavia in trying to balance military expediency with political necessity. See B.J.C. McKercher and Keith E. Neilson, 'The Triumph of Unarmed Forces': Sweden and the Allied Blockade of Germany, 1914-1917,' *Journal of Strategic Studies*, 7/2 (1984) pp. 178-199.

⁷⁵ 76 H.C. *Deb.* 5s. cols. 981-2, 2 December 1915.

⁷⁶ The Contraband Department of the Foreign Office formed the secretariat of the Ministry and was responsible for policy agreements with neutral countries. The Contraband Committee dealt with the treatment of suspect ships and cargoes; the RESC diverted supplies from the enemy which could not be touched by the naval blockade; the Foreign Trade Department of the FO was responsible for the preparation and administration of the Statutory List; the WTD regulated the exports of prohibited goods from the United Kingdom; the Financial Department prevented the financial business of enemy states from being transacted through Allied countries, the WTID and the WTSD collected and disseminated data on which executive decisions could be based.

In France on 23 March 1916 Deny Cochin, the president of the Comité de Restriction des Approvisionnements et du Commerce de l'Ennemi, was given ministerial rank signifying a higher status for blockade affairs. See Siney, *The Allied Blockade of Germany: 1914-1916*, p. 137. Yet Marjorie Farrar noted that in French wartime priorities, "blockade tactics ranked well below military and financial considerations, and blockade advocates had less influence in government councils than representatives of more long-term French interests". 'Preclusive Purchases: Politics and Economic Warfare in France during the First World War', *Economic History Review*, XXVI, 1 (1973) p. 117-8.

neutral ship-owners, traders and associations to give undertakings in return for special facilities for shipments. They contained rationing clauses to automatically detain excess goods.

In July 1916 a WTAC Sub-Committee reported that the existing conditions under which free goods were exported from Britain did not provide sufficient safeguard against them reaching the enemy and further measures of control were desirable. The methods they recommended were reliance on reports from Customs and Excise to the Board of Trade calling attention to marked increases in the export of particular articles, the right of Customs to insist on a suitable guarantee against re-export in the case of all free goods and the gradual inclusion of all free goods on the Prohibited Lists.⁷⁷

The time was ripe in Britain for stringent measures against Germany as losses on the Western Front mounted without any discernible progress. The Ministry of Blockade implemented the policy of forcible rationing on those neutral countries who refused to reach a voluntary agreement over imports with the Allies.⁷⁸ The Contraband Department issued a notification that a commodity was to be rationed. The licensing authorities only issued licences until the normal export figure had been reached, after which the Contraband Department would hold up all further cargoes of the commodity. It was this action which finally curbed what some considered to be the excessive British re-exports to the northern neutrals. Eyre Crowe was convinced that it was necessary to study carefully how to effectively kill German overseas trade with

⁷⁷ CAB 39/76/WTAC Sub-Committee 17: 'To consider the question of further control over "free goods" exported to countries adjacent to Germany'. Report presented to the Grand Committee at the 42nd Meeting on 20 July 1916. The Sub-Committee was chaired by Ernest Pollock, also chairman of the Contraband Control Committee.

⁷⁸ Runciman MSS WR 144: 'Memorandum re. Blockade Policy' by Cecil, 25 February 1916.

the legal machinery at Britain's disposal.⁷⁹ Lord Robert Cecil, the new Minister of Blockade, who had previously supported the policy of allowing luxuries to reach Germany, thought there could be little doubt that the country would tolerate nothing less. He recommended a clear statement by Britain and her allies that they regarded the blockade of Germany as legitimate and essential.⁸⁰

The hindering of exporting industries by the necessities of war.

Despite the best intentions of businessmen and officials to increase trade at the expense of Germany, circumstances of war meant that conditions were not suitable. In November 1914, Lloyd George had confidently stated to the Commons:

This country is absolutely free from the invader. Not only that, but our overseas trade is carried on practically without interruption. We have lost a certain amount of lucrative business on the Continent, but the markets of the world are open, not merely for the trade we used to carry on, but for the trade the enemy used to carry on.⁸¹

The reality was, however, that overseas trade was subject to a great deal of interruption, much of it prohibitively stifling. Britain had lost enemy export markets worth £63,047,000 in 1913 in Europe, which accounted for 12% of total British exports.⁸² Trade with the rest of the world became increasingly important to cover the shortfall caused by the loss of European markets. The ability to export to these

⁷⁹ This extended to businesses operating in Britain with alleged German connections which, until the Trading With The Enemy (Amendment) Act of January 1916, were allowed to continue trading due to potential harm to British economic interests and laissez-faire attitudes amongst government officials. See John McDermott, 'Trading With the Enemy: British Business and the Law During the First World War,' *Canadian Journal of History*, XXXII (1997) pp. 201-219.

⁸⁰ Quoted in Bell, *A History of the Blockade of Germany*, p. 544.

⁸¹ 68 H.C. *Deb.* 5s. col. 356, 17 November 1914.

⁸² The countries included: Germany £40,667,000; Austria £4,481,000; Turkey £2,414,000; Romania £1,947,000 and Belgium £13,528,000. Although not an enemy nation Belgium was a closed market due to the German occupation. Figures in Kirkaldy, *British Finance, During and After the War 1914-1921* (London, 1921) pp. 368-373.

markets was affected by the lack of purchasing power in neutral markets and a re-ordering of the British national effort.

Throughout the war there was a gradual move towards a more organised economic system which often neglected the importance of the exporting industries. The imposition of state controls by the Government was haphazard and sporadic. They were rarely in anticipation of events, more often than not an attempt to mitigate problems. After the initial dislocation caused by the outbreak of war, and until late 1915, the Government was concerned with supplying the Army and the Allies at any cost.⁸³ The creation of the Ministry of Munitions in May 1915 was the first attempt to bring some order to the chaotic system of purchase and supply. The intensification of the war effort continued with an attempt to control supply and prices through the wholesale purchase of raw materials. The period from the middle of 1917 to the Armistice was the one of greatest government control, with the free-market largely suspended, but control was by no means total. There was no economic war council to guide the functions of the various departments which included the Ministry of Munitions, War Office, Ministry of Food and Board of Trade, each of which had an input into the economic affairs of the country.

During the last months of 1914 and throughout 1915 the free market failed to provide the resources needed to fight a war which was constantly increasing in scale.⁸⁴

⁸³ On 6 August, 1914, Kitchener asked Parliament to increase the army by 500,000. The request was granted the next day. On 10 September a second vote was taken for 500,000 men and on 16 November the House of Commons voted to increase the army by an additional million men. 69 H.C. *Deb.* 5s. 1328.

The size of the Army had reached 2.5 million men by the end of 1915. In 1916, due to conscription, this figure rose to 3.8m. By March 1918 the Army consisted of 5.6m men (including colonial troops). P. Dewey, 'The New Warfare and Economic Mobilisation' in *Britain and the First World War*, John Turner (ed.) (London, 1988) p. 75

⁸⁴ The first industrial war with mass-production techniques also generated tremendous waste. "The most startling feature is the debris that is lying scattered on the surface and thick in the trenches. Sets of equipment, rifles, bayonets, shovels, shrapnel, helmets, respirators, shellcases, iron posts, overcoats, groundsheet, bombs (in hundreds) - I don't suppose there is a square yard without some relic and reminiscence of the awful waste of war." Malcolm Brown, *Tommy Goes to War*. p. 426. Quoted in A.D. Harvey, *Collision Of Empires*, p. 275.

Industry failed to equip the Services adequately, mainly due to government hindrances. Maurice Hankey observed:

The Government had no national plan for the extension of the army, or for its armament. None of the problems had been worked out or thought of at all - exemption from military service of skilled or unskilled labour, machine tools, raw materials, and national industrial mobilisation generally. Consequently, and in particular, there was no basis for programme making or for estimating future requirements and supplies.⁸⁵

The method of placing orders was disorganised and the War Office only invited tenders from a small number of approved firms. No warning was given to the armament manufacturers of what would be expected of them. In the five weeks after 25 August 1914 the War Office ordered as many field guns and howitzers as it had purchased over the previous ten years.⁸⁶ The government wanted a mass production of armaments on an unprecedented scale but this took time to establish, especially since the private sector had been kept idle during peacetime. It required an accumulation of specialised machinery, raw materials and labour skills previously practised by a small portion of industry to be spread across a large segment of civilian industry. The supply of war materials did not stop with munitions but a large portion of industry was tied up with war production.⁸⁷

The pressure of Government demand for manufactured goods and raw materials pushed up prices, leading to profiteering and increased profits for manufacturers without any corresponding increase in supply. These windfall profits and a subsequent rise in the cost of living caused industrial discontent and demands

⁸⁵ Quoted in D. French, *British Economic and Strategic Planning, 1905-15*, pp. 127-8.

⁸⁶ C. Trebilcock, 'War and the failure of industrial mobilisation' in *War and Economic Development*, Denis Winter (ed.) (Cambridge, 1975) p. 156.

⁸⁷ By Summer 1918, 90% of the metals industry, 79% of the chemical industry, 43% of mining and 26% of the clothing industry was engaged in war work. 61% of the industrial labour force was employed in war work for British or Allied Governments. Figures in Dewey, 'The New Warfare and Economic Mobilisation' in *Britain and the First World War*, John Turner (ed.) p. 77ff.

for higher wages. No attempt was made to withdraw revenue from the purchasing power of the population; the result was inflation and a continuing demand for 'luxury' goods. Non-essential industries competed unhealthily with the Government for materials and labour as did non-essential imports which occupied valuable freight space. The need for a controlling authority was recognised as the laws of supply and demand could not be relied upon to mobilise and distribute goods and services. Leo Chiozza Money wrote in 1915:

Waste was forced upon us by our unreadiness for war. We had in desperate haste to devise the means of expanding an Army at a rate at which never an army had been expanded before. We had to learn how to do it as we went along. In such circumstances the wisest of men could not have avoided resort to the most extravagant devices.⁸⁸

However, Money called for this waste to be checked and urged the Government to take more vigorous action. Collectively the Allies had the resources to bring overwhelming pressure to bear on Germany but to be effective it needed to be properly organised and directed. "While Germany is using all her means only the fringe of our resources in men, money, foodstuffs, and raw materials have been touched".⁸⁹

The Government only overcame its reluctance in order to win the war. The imposition of controls was far from smooth or co-ordinated. The Government was often embarrassed into action, as with the 'Shells Scandal' of 1915. Wartime controls grew out of necessity rather than as the product of deliberate state policy and usually in reaction to a specific set of circumstances which, if not remedied, would have courted disaster. The Government took control of productive capacity in order to ensure supply and to control costs. Direct methods included building factories, requisitioning the output of private factories or assuming control of privately owned

concerns such as the railways (August 1914), the collieries (1916-17), the flour mills (April 1917) and the Irish Distilleries (May 1918).⁹⁰ By the end of the war the Ministry of Munitions operated around 250 National Shell Factories. Where a private firm was taken over, the existing management was left in place with the Ministry issuing directives. Prices were fixed on a cost plus 'profits at pre-war level' basis.⁹¹ By issuing regulations the Government could prohibit production except under licence and manage output and quality.⁹²

By purchasing raw materials the state could indirectly apply pressure on industry who were now reliant on the Government for their raw materials.⁹³ The Government could also ensure an adequate supply of materials at a fixed price for both military and civilian use and direct their distribution. In June 1916 the Government purchased the domestic wool clip and continued to do so until 1919. In November 1916, the Government authorised the purchase of the entire Australian and New Zealand clip. In December the Government began rationing the wool at fixed prices, generally set at the market price, firstly to government contractors, then to export manufacturers and finally for home use. The necessity for priority of raw materials and labour for export industries was recognised, especially in light of the need for foreign exchange to finance purchases from America. A representative

⁸⁸ Leo Chiozza Money, 'Paying for the War,' *English Review*, 21 (1915) p. 63.

⁸⁹ Edgar Crammond, 'The Cost Of War,' *Journal of the Royal Statistical Society*, 78/3 (1915) p. 399.

⁹⁰ The Defence of the Realm Act, passed in August 1914, confirmed wide and undefined Powers upon the government. The Crown had the right to take possession of any private property by virtue of Royal Prerogative. In February 1916, Regulation 2B gave the Army Council power "to take possession of any war material, food, forage, and stores of any description, and of any articles required for or in connexion with the production thereof." E.M.H. Lloyd, *Experiments in State Control*, p. 50ff.

⁹¹ Regulation 7, March 1915, was used to requisition the goods of manufacturers which were not yet produced. Raw materials were given to a manufacturer who was instructed to make them up at a fixed price.

⁹² Regulation 30A enabled the Admiralty, Army Council, Ministry of Munitions to control trading in certain classes of articles and materials except through licence.

⁹³ Regulation 2E enabled the above authorities "to regulate, restrict, or prohibit the manufacture, use, purchase, sale, repair, delivery of or payment for, or any other dealing in any war material, food, forage, stores of any description, or of any article required for or in connexion with the production

Exporters Committee was established for the woollen, worsted and clothing trade to find new markets and fix prices. The Leather Control Committee served a similar function for the boot and leather industry, advising the War Office on the distribution of raw materials. However it was the Ministry of Shipping and eventually the Allied Maritime Transport Council who had ultimate control. If they could not, or would not, find the necessary tonnage then exports were stranded. The entry of America into the war in April 1917 removed the need for credit finance as all future Allied purchases were underwritten by the US Government and a great incentive to keep the exporting industries alive was lost.⁹⁴ The imposition of state controls progressed steadily. To ensure delivery of goods the Government took over production facilities; to ensure production they secured the relevant raw materials and to ensure the supply of raw materials they directed transport.

The priorities of war: Army versus Industry.

At the centre of any Government planning during the war lay the question of manpower. Soldiers were needed for raising a continental sized army and to replace the appalling casualties suffered every month. Men were also required in industry to supply this army and maintain the export drive. The dilemma for the Government was finding the right balance between the two. By the time the Government realised that recruitment was robbing industry of its productive capacity, much of the damage had already been done. Skilled labourers who enlisted in those early days of the war were lost to industry forever and could not be easily replaced. The Admiralty and the War

thereof." It was intended for use in fixing prices, as a legal basis for rationing manufacturers and dealers and enforcing a priority system of distribution.

Office began to distribute badges to men engaged in vital war production to prevent their recruitment. However no reference was made to workers in the equally important coal, iron and steel and food industries. The Ministry of Munitions, which eventually took over the task of badging, was more vigorous and by September 1916 almost 2.5 million men were in possession of badges.⁹⁵

In March 1915 at a Treasury Conference, the Government and trade union officials, headed by Arthur Henderson, reached an agreement over wartime working practices. The unions agreed to forgo strikes and accept the dilution of skilled labour for the duration of the war. This meant that manufacturing processes could be reorganised to allow unskilled workers, especially women, into the industrial workplace in greater numbers. From July 1914 until November 1918, 2.5 million men left the workplace to be replaced by 1.5 million women.⁹⁶

Kitchener had plans to put 70 divisions in the field; however Walter Runciman, President of the Board of Trade, thought 54-57 divisions was the most the country could support. He and the Chancellor, Reginald McKenna, wanted a balance between economic and military strategy to stave off economic disaster. They wanted to prosecute the war with less vigour in order to survive to the end. It had, after all, taken over twenty years to defeat Revolutionary France. They warned of the dangers of expanding the army at the expense of industrial capacity and financial reserves: "If large numbers of men were to be called up rapidly, the strains on the industry of this country would be enormous and grave industrial dislocation and collapse is to be

⁹⁴ See Lloyd, *Experiments in State Control*, chapters X-XII. In order to avoid speculation and price fluctuations the Postal Censorship held up hundreds of cables relating to wool during the crucial fortnight whilst negotiations were in progress.

⁹⁵ Figure from Christopher Addison, *Politics From Within*, vol. I (London, 1924) p. 198.

⁹⁶ Sidney Pollard, *Development of the British Economy, 1914-69* (London, 1969) p. 78.

feared."⁹⁷ A Report by the Manpower Commission concluded that the evidence received clearly showed that the limit of indiscriminate recruiting through patriotic appeals had been reached, if not exceeded, and that in the future, every man who was taken must be taken after careful regard for his usefulness in other spheres."⁹⁸

McKenna warned "Every addition to our expenditure, every withdrawal from industry adds to our difficulties. Our willingness to bear the burden is not in question, it is our capacity we must measure."⁹⁹

In December 1915 he advised his colleagues: "Our ultimate victory is assured if, in addition to our military and naval activities, we can retain unimpaired our power to assist in financing, supplying and carrying for the Allies."¹⁰⁰ The aim was

to keep alive the great industries which are the mainstay of the country's export trade rather than to maintain *all* trades, or to keep exports at pre-war level...The essential difference in this matter between the needs of this country and our allies is accounted for by the position we occupy in financing the *Entente* Powers, in which process exports play an essential part.¹⁰¹

The more munitions and war goods Britain could produce the less need there was for American imports which damaged the foreign exchange rate and utilised valuable shipping space and finance.¹⁰² Runciman wrote in January 1916:

I hold that our contribution to the cause of the Alliance must be properly balanced so that we do not fail in financial any more than in military aid...If the Cabinet refuses to cut the army coat according to our cloth, they will bring defeat on us as surely as would the presence of the Germans on the shores of the English Channel.¹⁰³

⁹⁷ Emmott MSS Box 6: Runciman to Emmott 1 January 1916. CAB 27/4/Appendix 3: Memorandum by the Board of Trade on the need of guidance when calling up men for the forces.

⁹⁸ CAB 37/134/3: Report by the Manpower Commission, 2 September 1915. See also Stephen McKenna, *Reginald McKenna, 1863-1943. A Memoir* (London, 1948) pp. 212-14 and 254-6.

⁹⁹ CAB 37/136/29: 'Adverse balance of trade in the UK' by McKenna, 22 October 1915.

¹⁰⁰ CAB 37/139/140: 'The Freight Question' by McKenna, 20 December 1915.

¹⁰¹ CAB 37/142/11: 'Cabinet Committee on the Co-ordination of Military and Financial Effort. Report' 1916.

¹⁰² Runciman MSS WR 90: Memorandum for the Cabinet by McKenna, 13 September 1915.

¹⁰³ Runciman MSS WR 149: Unaddressed letter, 1 January 1916.

Keynes noted: "Having taken up our historic role of furnishing our European allies with money and the munitions of war and on a scale hitherto unthought of, we must bend ourselves with foresight,

In order of priority, Runciman placed first the navy, secondly finance, thirdly industrial power and finally the "provision of a 'brave army'".¹⁰⁴

Kitchener disagreed that a choice had to be made between men and money. He advocated the exercising of strict economy to allow the war to continue without any disruption to the flow of recruitment. The reorganisation of home industries would reduce the need for munitions and equipment from America, the imposition of import duties and limited rationing would bring economy in consumption by the nation and women could be used to fill the gaps in industry left by the withdrawal of men for war.

This is not a Government's war on limited liability principles, but the Nation's war, and we shall not win it except by a supreme national effort such as our enemies are making... We should remember that, if we do not win, no soundness of finance will avail us. We shall be bled white.¹⁰⁵

Bonar Law held a similar view believing Britain had to risk everything, including national bankruptcy, in order to bring the war to an early termination. Victory would only come if the Allies were able to keep a superior force embodied long enough to exhaust and defeat the enemy; and financial resources had to be regarded in the same way.¹⁰⁶

In October 1915 Lord Derby was appointed as director of recruitment. He embarked upon a scheme to persuade all males between 18 and 41 to 'attest,' or enlist subject to being called up for active service at a later date. His findings, made known in December, revealed that 2.8 million men had attested but another 2.18 million had

intelligence and caution to the weighty task of mobilising our unequalled resources of wealth for the service of the commitments into which we have entered." Asquith MSS Box 133: 'Note for the Prime Minister on the Financial Situation'. 30 October 1915.

¹⁰⁴ *Northern Daily Mail*, 26 June 1915. Quoted in Jonathan Wallace, *The Political Career of Walter Runciman*, unpublished Ph.D. thesis, University of Newcastle upon Tyne (1995), pp. 222-3.

¹⁰⁵ Runciman MSS WR 90: 'The Financial Situation' by Kitchener, 27 July 1915. A.J. Balfour believed the conscriptionists were right to think that great sacrifices were required but warns that such additional efforts could not be sustained. WR 90: 'Finance and the War', 17 October 1915.

failed to do so. After deductions had been made for the army's immediate needs and those men with reserved occupations, only 522,000 new recruits remained under the voluntary system.¹⁰⁷ At this time the army needed 130,000 new recruits a month to maintain its size. It was becoming clear that the only method of resolving the situation would be through the introduction of conscription. Throughout late 1915 the Cabinet was split over the issue with Runciman, McKenna and other like-minded ministers, Sir Edward Grey and Sir John Simon, threatening to resign. Hankey implored them not to, claiming if they went the Government would be handed over to the militants and extremists.¹⁰⁸ At the same time Lloyd George was arguing that victory had to be secured whatever the cost. In a letter to Chamberlain he wrote:

[The Allies] must win through even though we win in rags. The notion of keeping up our trade as if there were no war is fatal. The single eye always triumphs in the end. Thus Germany fights - her trade gone and her people rationed on potatoes. I implore you not to give assent to the McKenna-Runciman position.¹⁰⁹

Runciman and McKenna were diametrically opposed to this line of thinking. For them, military victory at the cost of economic defeat was unacceptable.

It was decided to submit the issue to a committee, which would decide on acceptable limits of recruitment. Its Report concluded that the War Office should be able to maintain 62 divisions in the field and 5 territorial divisions for home defence.¹¹⁰ Runciman viewed this as a failure, believing the undertakings given by the

¹⁰⁶ Runciman MSS WR 90: Bonar Law to Cabinet, 25 October 1915.

¹⁰⁷ CAB 37/139/41: Memorandum on Recruiting, 20 December 1915.

¹⁰⁸ McKenna MSS MCKN 5/9: Hankey to McKenna, 28 December 1915. On the same day Asquith wrote to Runciman, McKenna and Simon with a sentimental appeal for them to reconsider before they took any action which may invalidate the authority of the Government with the country and the party. He thought their simultaneous departure would be a shattering blow to the Government and the Liberal cause. Simon MSS Box. 52: Letter of 28 December 1915.

¹⁰⁹ Lloyd George to Chamberlain, 8 January 1916. Quoted in Jonathan Wallace, *The Political Career of Walter Runciman*, unpublished Ph.D. thesis, University of Newcastle upon Tyne (1995), p. 232.

¹¹⁰ CAB 27/4: Report of the Cabinet Committee on the co-ordination of the military and financial effort, 4 February 1916.

War Office were worthless for the security of the industrial and financial strength to which he and McKenna attached importance.”¹¹¹

The First Military Act of 1 March 1916, introduced compulsory service for single men aged 18-41, and a Second Military Act in May applied to married men. On 22 August 1916, Austen Chamberlain was appointed chairman of a Manpower Distribution Board. Its task was to decide all questions relating to the utilisation of manpower and its allocation between different Government departments. The Board recommended the introduction of national service, yet the Government chose to stop short of such a proper organisation of industry. Industrial conscription was considered too risky to impose as the Government feared opposition from the Unions, upon whose goodwill they were already dependent. The shortage of labour and the need to keep production levels high had placed workers in a relatively strong bargaining position. With the terrible losses from the Somme campaign to be replaced, the Board recommended another increase in the dilution of industry. Available manpower was to go first to the Army and then to the Ministry of Munitions. The only sector to increase its employment of both men and women during the war was the munitions (including metals and chemical) industry. The exporting industries were neglected.

Conclusion.

In November 1914, Lloyd George stated during his War Budget speech:

During the war, and during the period of reconstruction, there will be practically no competition in the neutral markets of the world except from America. We shall, therefore, practically command those markets, because America certainly cannot supply the demand.¹¹²

¹¹¹ McKenna MSS MCKN 5/9: Runciman to McKenna, 23 January 1916.

¹¹² 68 H.C. *Deb.* 5s. col. 354, 17 November 1914.

By the time the Foreign Trade Department was devising its policy of attacking German overseas trade in early 1916, it was already clear that the increasing pressure of the blockade and the necessities of the war effort had rendered such words hollow. The attempt to disconnect German trade may have been successful but the attempt to appropriate such trade proved more difficult. Britain's ability to trade came under pressure from a variety of sources. The restrictions on tonnage affected the capability to import raw materials and export manufactured goods. Recruiting took its toll on industrial manpower and intensifying blockade restrictions prohibited, hindered and stifled the desire and capability to trade. The nature of international trade meant that it was impossible to separate the trading systems of Allied countries from those of the Central Powers without great loss. Before the war, British ships had carried German goods around the world and German trading houses in Latin America and the Far East had facilitated the import of British goods to those continents. During the war, with Britain preoccupied and unable to trade to her full extent, expansionist trade policies became increasingly unsustainable.

III

The dislocation of shipping and finance during the economic war

The war also affected the operation of British shipping and finance. Not only did this inhibit the commercial offensive but it also struck at Britain's invisible income, a vital element in the health of the economy.¹ The world economic system prior to 1914 was based around Britain, sterling and the multilateral settlement pattern. After 1870 Britain developed a balance of trade deficit with industrialised Europe and the United States who in turn had trade deficits with under-developed and newly settled countries. Britain, on the other hand, had a trade surplus with under-developed countries and used this surplus to settle her debts with her industrialised partners.

Towards 1914, Britain's surplus with these underdeveloped nations was dwindling as they began to export more raw materials and food to Britain and competition grew in those markets with industrialised rivals. As a consequence, Britain relied increasingly on the invisible surplus to clear the deficit with Europe and the United States, along with the export of manufactured goods, mainly textiles, to a limited number of under-developed nations within the Empire, mainly India.² Britain was committed to allowing free access to her home market to encourage the high level of imports she required and also to enable her borrowers to repay their debts. If the balance between these imports, Britain's exports

¹ A fact often under appreciated according to P.J. Cain and A.G. Hopkins in *British Imperialism, Crisis and Deconstruction, 1914-1990* (London, 1993) p. 32.

and the level of invisible income was disturbed, this delicate economic equilibrium, which operated in Britain's favour, would collapse. In each of these three vital areas - exports, shipping and overseas investment - there was enough concern for the British to feel that it was they who were losing as much through trade dislocation as Germany.

British shipping and the war.

One of the great strengths of Britain's trading position before the war had been the size of her merchant fleet. It carried British and foreign goods to and from Britain and between foreign ports world-wide, expanding trade and generating valuable revenue from freights. At the outbreak of war the navy requisitioned British shipping as transports and auxiliaries for use by the military. In January 1916 a Shipping Control Committee was established to decide upon the allocation of tonnage to the various supply departments and the Allies, but it failed to bring supply programmes within the capacity of transport. The Lloyd George Cabinet created the post of Shipping Controller, accepted by leading ship owner Sir Joseph Maclay.³ He possessed wide-ranging powers to regulate shipping including: the employment of merchant shipping, requisitioning, the licensing of voyages, control of port and transit facilities, chartering of neutral vessels, direction of merchant shipbuilding and the rates to be charged for freight or hire.⁴

By the end of 1916 much of the available tramp tonnage had been requisitioned and attention turned to the liner fleets which constituted a third of Britain's ocean-going

² Cain and Hopkins, *British Imperialism, Innovation and Expansion* (London, 1993) pp. 223ff.

³ Maclay had a large shipping concern on the Clyde. He was part of the Lloyd George practice of bringing businessmen into the wartime administration but it was on Bonar Law's recommendation that Maclay was suggested for the post.

⁴ C.E. Fayle, *A History of the Great War. Seaborne Trade*, vol. III. (London, 1920) pp. 7 and 459-61.

vessels and half their tonnage. The liner trade with its regular, fixed routes carrying a mixture of passengers and cargo suffered greater losses due to the disruption of their trading patterns. Liner services were important in marketing British manufactured goods. A considerable part of earnings on steamship liners derived from passenger traffic and inward freights. Thus British manufactured goods were carried abroad at rates that could not have been afforded but for the existence of highly organised services with considerable volume of trade in other directions. British exports enjoyed an advantage in foreign markets through frequent and regular sailings from Britain and the stable rates of freight that ruled. The value of exports carried by liners represented 75% of exports from Britain.

Requisitioning for the owners of tramp ships was of no lasting consequence, the only difference being that Government 'Blue Book' rates were often not as high as market freight rates. However, the redirection of liners from longer African, Eastern and Australian routes meant that liner companies lost not only profits but also goodwill and connections built up over many years of regular service. In 1916 the British Association of Japan telegraphed that the British authorities be informed of serious restraint of British trade owing to scarcity of tonnage. They urged strongly for steps to be taken to release at once all possible ships in order to restore reduced British services to ante-bellum conditions. Under present conditions it was impossible for British merchants to expand their export trade and there was a very real danger of actually losing business connections

which had been laboriously built up."⁵ By the end of 1917 the British merchant fleet was working predominately for the war effort.⁶

The re-ordering of shipping priorities.

In 1917, with the entry of the United States into the war, the problem of finance became less acute. Supply became less a question of affordability and more of the ability to transport the goods. As the Allied need for supplies increased and shipping losses from submarine attacks mounted, the importation of a large number of commodities was prohibited except by licence.⁷ Sir Joseph Maclay wanted greater consideration to be given to imports for manufacturing purposes to ensure that the country still had export trades when the war was over. The licences were granted by a Tonnage Priority Committee which selected and directed imports in the national interest. Each department presented the Committee with a list of its requirements and the Committee drew up a monthly priority list aimed at optimising the available shipping to meet tonnage demands.⁸ By placing similar restrictions on the export trade, the Government could conserve supplies necessary for war production, ensure priority for goods for the Allies and maintain the blockade on Germany.

⁵ FO 371/2688/6617: Telegram from Greene (Tokyo), 11 January 1916.

⁶ 100 vessels as auxiliaries and 300 as naval transports (16%), 70 as troopships and 335 for the supply of land forces (17%), 350 for raw material imports for the munitions industry (15%), 750 for essential civilian imports (31%) and 500 on loan to the Allies (21%). Salter, *Allied Shipping Control* (Oxford, 1921) p. 77.

⁷ Imports had declined from 52,793 tons in 1913, to 42,326 tons by 1916 and to 34,417 tons by 1917. Arthur Salter, *Allied Shipping Control*, Table 4, p. 352.

⁸ Hurwitz, *State Intervention in Great Britain* (New York, 1949) pp. 194-5. The Tonnage Priority Committee included representatives of the Admiralty, War Office, Board of Trade, Ministry of Food, Ministry of Munitions, Colonial Office, India Office, Treasury, Timber Supply Department and the Commission Internationale de Ravitaillement. Its chairman was Leo Chiozza Money. See Fayle, *A History of the Great War. Seaborne Trade*, vol. III, (London, 1920) p. 10.

Britain's urgent need for imported supplies led to a reordering of trade priorities. At the end of May 1917, the War Cabinet authorised the Purchasing Departments to take the necessary steps to procure supplies as soon as possible from the United States and Canada and lower commitments from other markets to a minimum. The Tonnage Priority Committee was to take action to concentrate demand on the United States and divert private demand for commodities into the same channel. The policy was not to be disclosed to the Dominion Governments, India or the Allies until the machinery for purchasing was in place.⁹ A monthly priority list was drawn up for each shipping route to assess the quantity of commodities that needed to be brought to Britain. Arrangements were then made for ships to be available to load and transport the goods. Any tonnage surplus to requirements along a particular route was transferred to another. The heaviest route was across the North Atlantic as it entailed the shortest voyage and America could supply most manufactured imports needed by the Allies. Shipping was reallocated at the expense of more time-consuming Latin American, Far Eastern and Australasian routes.¹⁰

Tonnage for exports now depended entirely upon routes taken to collect imports, which did not necessarily correspond with Britain's traditional trading patterns. There

⁹ CAB 23/2/W.C. 150: 30 May 1917.

Sir Edward Carson questioned the policy warning that it would have the immediate effect of running the market against Britain and leave the United States in the favourable position of middleman. He thought it was bound to have a disturbing financial effect in the United States and other parts of the world. CAB 24/15/G.T. 950: Carson to Hankey, 5 June 1917.

¹⁰ The Far Eastern priority list comprised of little except tin and rubber from the Malay Peninsula, beans from China and Japan and hemp from the Philippines, never more than 20,000 tons. The Australian priority list contained wool (most importantly), copper, hides and meat; some 50,000 tons. The South American trade was given priority for refrigerated shipping (for the transportation of meat) over Australia on account of its shorter route. Much came from the Plate with a list of 12,000-25,000 tons. There was little interference with the west coast South American services as they already matched the 25,000 ton list of nitrates, sugar, copper and other metals. The South African list was small, around 12,000-15,000 tons. Surplus vessels either went to Australia for trooping or to India for a homewards cargo, often carrying coal from Durban to the bunker at Colombo on route. The East African list, about 40,000 tons of kernels, ground-nuts and palm-oil, had barely enough tonnage to service it. Fayle, *A History of the Great War. Seaborne Trade*, vol. III, pp. 122-125.

were complaints of delays in outward shipments. Sir William Byles, MP for Salford, asked whether the export of cotton piece-goods to India and Burma could be accelerated. He was aware of 20,000 packages waiting for shipment to Bombay alone, worth £800,000.¹¹ This was not the concern of the Ministry of Shipping whose sole task was to ensure the delivery of supplies essential for the war effort.¹² Yet it was of grave concern to the Treasury as the gap between exports and imports widened.¹³ There was a glut of outward tonnage to the United States to the detriment of Britain's imperial trade which had become increasingly important before 1914.¹⁴ The Shipping Controller stated that ships being brought to aid Britain during the crisis were being taken from accustomed routes. Not only was there a present loss to British interests but there was the prospect of permanent injury in imperial markets. "Shipping lines which have been built up by assiduity and enterprise during long years are being depleted of tonnage, with the result that a great opportunity is presented to the foreign shipowner."¹⁵ Victor Wellesley, in giving evidence to a committee concerned with shipping interests and the carrying trade, warned:

It is scarcely going too far to say that the whole economic condition of this country depends upon the supremacy and maintenance of our shipping industry...Any step, therefore, which is likely to affect this position and

¹¹ 92 H. C. *Deb.* 5.s. col. 918, 2 April 1917.

¹² CAB 24/12/G.T. 660: 'Proposal to secure absolutely the national safety by concentrating shipping in the Atlantic' by Leo Chiozza Money, 4 May 1917. Money had ambitious plans for the purchasing of supplies in the United States, the reorganisation of ports, restricting ships to the Atlantic route and maintaining a reserve of ships. See CAB 24/13/G.T. 711: 'Shipping Strategy in the Atlantic', 11 May 1917.

¹³ The gap between visible imports and exports widened from £133.9m in 1913 to £783.7m in 1918. See A.W. Kirkaldy, *British Finance During and After the War, 1914-21* (London, 1921) p. 360.

¹⁴ Between 1870 and 1914 the proportion of British exports to the Empire had risen from 23% to 35%.

¹⁵ CAB 24/8/G.T. 284: Statement by the Shipping Controller on the mercantile marine and the shipping programme, 20 March 1917.

This message was reinforced by Lord Inchcape, the chairman of the P&O Line, who warned that the withdrawal of ships from distant international trades was opening the door to foreign competition and there would be great difficulty in re-establishing British interests in many trades from which ships were being withdrawn. CAB 24/20/G.T. 1407: Inchcape to Maclay, 6 July 1917.

restrict our world wide trade into narrower channels calls for the most utmost consideration.¹⁶

Shipping routes and trade connections.

Despite this, restrictions on the import of raw materials for manufacturing, the dislocation of industry and the reduction in the skilled labour pool by army recruitment were more responsible for the decline in exports rather than the reduction in outward tonnage. Even India, Britain's largest overseas market, had adequate outward tonnage largely due to the fact that the priority import lists for India, Ceylon and Rangoon were very large.¹⁷ The implications of the reallocation of British shipping were really felt beyond Britain's direct overseas trade. As the owner of the world's largest merchant fleet before the war, British shipping also carried a substantial amount of neutral trade and plied routes between neutral ports.¹⁸ Gradually the Government had requisitioned these vessels to assist in supplying the national war effort. By July 1917, 40% of gross British tonnage was in the North Atlantic. Between January and July 1917, the period of greatest upheaval, the percentage of British shipping employed in cross-trade dropped from 32% to 22.5%.¹⁹

Fears were expressed over the loss of these routes as shipping freights contributed a substantial amount to invisible export revenue which in turn had helped to keep

¹⁶ FO 368/1871/f171440/215270: Notes from a Report of the Committee appointed to advise as to the measures requisite for the maintenance of the British mercantile marine, 1 November 1917.

¹⁷ They amounted to some 140,000 tons consisting of manganese, rice, oil-seeds, tea, sandbags and jute. Fayle, *A History of the Great War. Seaborne Trade*, vol. III, pp. 121-2

¹⁸ In 1914 Britain owned 44.5% of the world's merchant shipping. Germany possessed the second largest fleet with 12%. Fayle, *A History of the Great War. Seaborne Trade*, vol. I, p. 18. Out of 8,445 ocean-going vessels Britain possessed 4,174 and Germany had just 743. Salter, *Allied Shipping Control*, p. 8.

¹⁹ Fayle, *A History of the Great War. Seaborne Trade*, vol. III, p. 126. In 1913 British shipping provided 30% of tonnage plying between foreign ports, 55% of tonnage between foreign countries and the Empire, 66% between the UK and foreign countries, 80% of inter-colonial trade and 94% of tonnage between the

Britain's pre-war balance of payments healthy. At a meeting of the Economic Defence and Development Committee in July 1918 complaints were raised in relation to British shipping and foreign competition. Lord Inchcape noted that the Japanese were appropriating trade routes that had been built up by British firms prior to the war largely unhampered by competition. During 1918, they established lines of steamers between Calcutta and America despite repeated requests to the Japanese Government to make their tonnage available for the common use of the Allies. The requests were met with unconditional refusals on the grounds that Japanese tonnage was required for essential use in Japan. British officials believed Japanese policy was to take advantage of wartime conditions to expand their maritime trade at the expense of other shipping interests. The British had attempted to keep sufficient vessels on the Calcutta-US route as the credits built up in America by India were vital for the Allied war effort. The intrusion of Japanese tonnage was wasteful and only encouraged the shipment of non-priority goods. The substitution of Japanese for British shipping on the route meant that British ships could be released for Allied service. However these ships would probably be deployed in the war zone and be subject to heavy losses. Meanwhile Japanese tonnage enjoyed relative immunity outside the war zone enabling it to improve its position by supplanting British shipping after the war.²⁰

Sir Kenneth Anderson stated that American competition was not merely a post-bellum problem but that it was already being felt. On routes between North and South America British lines had possessed four-fifths of the carrying trade before the war.

UK and the Empire. Cd. 9092, *Report of the Committee on Shipping and Shipbuilding Industries after the War* (1918) p. 145.

²⁰ CAB 27/44/EDDC.46: 'British Shipping and Foreign Competition'. Telegram from the Foreign Office to Sir C. Greene (Tokyo), 18 July 1918.

However, for many months, there had not been a single ship left in the trade, the majority having been withdrawn by the Government in 1916. He warned that unless British lines were to be supplanted owing to the preoccupation with the war needs of the Allies, tonnage within Britain's control must be found for their maintenance. Sir Joseph Maclay said that in connection with North and South American trade he would like to obtain the sanction of the War Cabinet to reinstate a dozen British ships in the trades.²¹ This theme was taken up in the Commons but Leo Chiozza Money, parliamentary secretary to the Ministry of Shipping, replied that there would be no withdrawal of vessels from direct war service to protect British interests, "lamentable as it may be".²²

The discussions revealed a divergence of opinion over the issue of aiding Allies at the expense of British interests. None of the Allies could have continued the war without the imports of food and munitions they received, the volume of which was far in excess of the tonnage they possessed to carry it. By July 1918 the French had nearly 2 million tons of British tonnage in their possession and the Italians had 1.1 million, with British ships carrying 45% of those countries imports. The bulk of French (57%), Italian (66%) and United Kingdom (56%) tonnage was employed in the import service of the four main Allies (including America). The majority of US tonnage (37%) was employed in naval or military or naval service of the Allies. However, America had a further 27% of her merchant fleet engaged in the coasting and colonial trade. Only 11% of the British fleet, 5.5% of the Italian and 3.8% of the French fleets were engaged in this task.²³ What was

²¹ CAB 27/44/EDDC.21: 9 July 1918.

Maclay had previously reported to the War Cabinet that the Americans had opened new commercial lines to South America. This was evidence that the US was engaged in the post-bellum development that Britain was always suspected of. CAB 23/4/W.C. 253: 10 October 1917.

²² 109. H. C. *Deb.* 5.s. col. 1353, Mr Pringle to L. Chiozza Money, 7 August 1918.

²³ Table 11 in Salter, *Allied Shipping Control*, p. 364.

resented was tonnage assistance given to America without cause. The British believed that America would have tonnage to spare if she was prepared to sacrifice her coasting trade, as Britain had done.²⁴

In August 1918 Leo Chiozza Money was questioned in the Commons:

Is it not a trifle incongruous that while we are lending ships to America for all purposes, America, with new interests, should be taking the place of British Services between North and South America, and does he not see that it is reasonable to ask that, while we are giving all that to America, the Americans should not be collaring British trade?²⁵

Chiozza Money replied that the Government was not lending ships to the United States but to the Allied cause, in order that 10,000 American troops each day could be transported to Europe. Arthur Stanley, the President of the Board of Trade, endorsed this view believing that given the choice of American troops or raw cotton, the people of Lancashire would have little hesitancy in choosing American troops.²⁶

However, many thought that the American Government were relying on the British to transport their troops whilst leaving American vessels free to appropriate British trade routes. It was reported to the War Cabinet that the United States, who had promised to assist in transporting troops from Britain to France had not yet sent four coastal transports they agreed to dispatch. They were still using their steamers in the passenger trade whilst leaving Britain to carry their troops.²⁷ Between April and September 1918, about 850,000 American troops (60% carried in that period) were carried in British ships and escorted by the Royal Navy. Every passenger steamer from

²⁴ The Foreign Office noted the chief routes American steamers were employed on: US to Brazil, Argentina, the west coast of South America, the Philippines and the Far East; the West Indies sugar trade and the Northern European coal trade. CAB 24/61/G.T.5516: 'Memorandum on Shipping, Munitions, War Supplies and Shipbuilding' by the Political Intelligence Department, 19 July 1918.

²⁵ 109 H. C. *Deb.* 5.s. col. 1353, Mr Hogge, 7 August 1918.

South Africa had been used, practically killing trade with that country, and all the fast passenger steamers from India and Australia had been removed for the task. It meant not only a loss of financial earnings but also practical isolation for certain overseas Dominions.²⁸

The original proposal had been to have 100 American divisions in Europe by 1919 and the British were expected to supply much of the shipping to transport and supply these troops. The problem of transporting American troops was discussed in Washington in April 1918. The president of the US Shipping Board, Edward N. Hurley, stated that American ships could carry 90,000 troops a month but this would require a reduction of imports in trade with Japan and Brazil.²⁹ Wilson instructed him to inform the British how many troops America could send without taking out the Japan and Brazil tonnage and then ask Britain and France to provide the balance.³⁰

British aid to the American war effort.

In August 1918 the Admiralty noted that America's output of merchant tonnage for the first five months of the year had been higher than it was thought possible to achieve.

Whilst they had no complaint with the American war effort, they considered this a worrying situation and wanted a reconsideration of the total maritime effort of Britain and

²⁶ 106 H. C. *Deb.* 5.s. col. 403, 15 May 1918. At the time cotton imports were one-half pre-war levels.

²⁷ CAB 23/5/W.C. 355: 27 February 1918.

²⁸ Lloyd George MSS F 35/2/88: Telegraphic summary of an interview with the Shipping Controller for the American Press, 5 December 1918.

²⁹ Hurley was chairman of the Federal Trade Commission (1915-17) and no doubt saw a need for a large merchant marine as a means for gaining increased trade for America.

³⁰ E. David Cronon (ed.), *The Cabinet Diaries of Josephus Daniels, 1913-1921*, 3 April 1918. Quoted in E. B. Parsons, 'Why the British reduced the flow of American troops to Europe in August-October 1918,' *Canadian Journal of History* 12/2 (1977-8) p. 176-7.

the United States.³¹ Virtually all the British mercantile fleet had to traverse the danger zone infested by German submarines, resulting in substantial losses of tonnage. The maritime marine was not being rebuilt at the same speed as would be possible if Britain's contribution to the naval war effort was not so great or if the United States took a greater share. The material and labour currently used for repairing British and Allied ships could be diverted into merchant construction. The Admiralty questioned whether it should be the continued policy of the Government to accept responsibility for the whole burden of naval warfare, less such contribution the Allies felt disposed to make, to the sacrifice of other vital demands on resources.³²

This problem of balancing the burden of the naval war effort was part of a much larger question concerning the contribution of the United States. With commercial competition from America and restrictions on the British export trade, Sir Joseph Maclay questioned why British factories were manufacturing materials such as clothing, boots and blankets for the American Army:

It seems to me a most questionable policy to stop our export trade even for the sake of exchange, in favour of helping the Americans, while the Americans use their material to a greater extent for export purposes, which they send to markets from which our merchants are being driven.³³

³¹ The Foreign Office reported that the "position of America, as a shipbuilding country, is being rapidly transformed; but the necessities and difficulties of the immediate present tend to obscure the possibilities of the future." CAB 24/61/G.T.5516: 'Memorandum on Shipping, Munitions, War Supplies and Shipbuilding' by the Political Intelligence Department, 19 July 1918.

These future possibilities were illuminated by Hurley, of the US Shipping Board, in an address to manufacturers: "The more vigorously we fight the war, the more tonnage we shall have at our disposal when peace is declared." CAB 24/61/G.T.5494: Geddes to the War Council, 24 August 1918.

³² CAB 24/60/G.T.5307: 'Naval Effort - Great Britain and the USA' by Geddes, 2 August 1918.

Leo Chiozza Money commented that at the present rate of construction, it was not improbable that by 1920-21 the United States would have a bigger mercantile marine than Britain. CAB 23/7/W.C.456, 9 August 1918.

³³ Lloyd George MSS F35/2/66: Maclay to Lloyd George, 15 July 1918.

It was British policy to supply America with all the equipment procurable from British manufacturers which could possibly be spared.³⁴ This was at the expense of civil and export trades but it did help to reduce the balance of indebtedness to America and assist the foreign exchange position.³⁵ Austen Chamberlain, responding to criticism of the British war effort, stated that Britain was largely responsible for supplying American troops and making large contributions of materials of all kinds to the Allies.³⁶ Churchill was particularly defensive of this position. He believed that manufacturing for the American Army was economically most desirable to off-set the huge burden of debt Britain was accumulating in the United States. He also stated that it would not have been possible to sustain the amount of American troops currently in Europe, "saving the situation," if Britain had not been willing to largely supply their clothing and equipment.³⁷

Churchill's views were considered unsound by Sir Arthur Steel-Maitland whose task it was, as head of the Department of Overseas Trade, to give every encouragement to the export trade. He agreed that Britain's general indebtedness to the outside world was not affected whether she manufactured for the American Army or exported to other countries. What did matter was the effect the policy had on Britain's commercial position after the war:

As soon as the war is over the United States orders for uniforms, etc. will cease. We shall have gained no good will or trade connections of any enduring value. On the contrary we shall have tended to lose what we

³⁴ CAB 23/3/W.C. 222: 22 August 1917. The Secretary of State for War had received approval from the War Cabinet to furnish clothing and boots for the United States army, for whom there was a shortage, should it be asked for officially.

³⁵ CAB 27 44 EDDC. 22: A. Weir (War Office) to Austen Chamberlain, 11 July 1918.

³⁶ CAB 23/7/W.C. 445: 15 July 1918.

³⁷ CAB 27/44/EDDC. 26: Churchill to Austen Chamberlain, 19 July 1918.

previously had, and shall have enabled the United States or Japan to acquire these at our expense.³⁸

Lloyd George noted that the United States Government was putting forward extravagant demands for clothing and munitions which could place a heavy strain on manpower and shipping.³⁹ The Economic Defence and Development Committee considered the various arguments at a meeting in October 1918 but decided that under the circumstances they had no choice but to continue supplying the United States Army.⁴⁰ Similarly, the Admiralty's request for compensatory merchant tonnage in exchange for the continuance of British repairs work for the United States was thought inadvisable. The most that could be asked of the Wilson administration was to adjust the construction rate so that the ratio of warship/merchant construction was the same in both countries, with repairs counting as construction. Britain devoted a much larger proportion of her output to warship construction.⁴¹

Wilson and the United States merchant marine.

Wilson was determined to free the United States from dependence on the British merchant marine after the war. Britain, with the largest merchant fleet in the world, carried the bulk of Allied supplies and also bore the brunt of shipping losses. Before the war Britain possessed 43.7% of the world's merchant fleet, some 18,892,000 tons gross. By June 1919 the tonnage had dropped slightly to 16,345,000 tons but this now

³⁸ CAB 27/44/EDDC. 32: Note by Steel Maitland, 7 August 1918.

³⁹ CAB 23/7/W.C. 459, 15 August 1918.

⁴⁰ CAB 27/44/EDDC 11th Minutes: 15 October 1918.

⁴¹ CAB 24/62/G.T.5521: Record of a meeting held at the Foreign Office between Balfour, Reading, Maclay and the Third Sea Lord, 16 August 1918.

represented only 35.7% of the world total. In contrast the United States share had risen, over the same period, from 4.8% to 21.5% or from 2,070,000 tons to 9,824,000 tons.⁴² This was partly due to the US shipbuilding programme inaugurated by Congress in 1916. However British shipbuilding construction during the war continued to outstrip that of the United States despite major difficulties. Merchant shipbuilding had to take place alongside Admiralty building, especially orders for anti-submarine and convoy escort vessels. There was also the usual shortage of skilled labour, from indiscriminate recruiting, and a shortage of steel. Added to this was an enormous amount of repair work for both Royal Navy and merchant shipping taking up valuable space in the yards. The Government tried to relieve congestion and speed up construction by placing orders with overseas countries, namely America. However, on 3 August 1917 a Requisitioning Order was issued by the US Shipping Board for all steel ships over 2,500 tons dead-weight currently under construction for private owners of any nationality. This included orders for ships placed by Britain amounting to some 700,000 tons dead-weight.⁴³

New construction for the British Empire amounted to 4,765,000 tons gross with America (including the Great Lakes) building 3,643,000 tons, the majority of this during 1918. British losses, however, were much heavier than her Allies and new construction failed to make good the losses. British tonnage lost through enemy action amounted to some 7,748,000 tons leading to an overall net loss of 2,983,000 tons. The United States, on the other hand, lost only 389,000 tons of shipping leading to a net gain of 3,254,000

Geddes was unhappy with the decision and thought the issue merited further consideration. CAB 24.62 G.T.5508: 28 August 1918.

⁴² Table IV in Fayle, *A History of the Great War. Seaborne Trade*, vol. III, p. 469.

⁴³ Fayle, *A History of the Great War. Seaborne Trade*, vol. III, pp. 81, 103-4 and 214-6.

tons.⁴⁴ American ships were loath to enter the submarine infested waters around the United Kingdom if they could at all help it. Entrances and clearances of American shipping at British ports were lower than they had been before the war. British ships obviously had no choice but to take the risk in order to prevent the nation from starving and the war effort from grinding to a halt.

When the United States had declared war, Wilson ordered that all German merchant ships trapped in American ports be requisitioned. Although this was originally only meant to be for the duration of the war, Wilson subsequently demanded the retention of these vessels as reparation for America.⁴⁵ The British were vexed that the United States were claiming possession of twice as many ships as she had lost. A compromise was concluded between Wilson and Lloyd George whereby ships captured in port could be retained by those who seized them but the value of the ships would be distributed amongst the Allies according to ships lost. This meant the United States had to pay a surplus for her ships but the utility value was far greater than the actual monetary value.⁴⁶

It was this great leap in the size of the American merchant fleet, combined with British wartime impotency, that made many ship owners and merchants fearful for the future of the British coasting trade and the subsequent income from freights after the war. From 1910 to 1920 the amount of American merchant shipping registered in foreign trade

⁴⁴ Ibid., Table III, p. 468. Tonnage gains and losses from August 1914 to 31 October 1918. Additions do not include captured tonnage or gains by transfer or purchase. Deductions do not include ships interned in enemy ports, marine losses or transfers and sales. With these figures, British Empire additions came to 6,679,000 tons and deductions to 9,763,000 tons. For America the figures are 5,081,000 tons and 885,000 tons. Japan was the only other major nation to increase the size of its fleet, rising by 677,000 tons to 2,385 tons.

⁴⁵ The French also claimed German Atlantic liners for colonial communication. They were the best ten passenger ships Germany had and the acceptance of the French claim, according to Maclay, would have serious consequences for Britain's position in the North Atlantic. He urged that claims should be not on colonial need but on an equitable basis in proportion to losses suffered. Lloyd George MSS F/35/3/29: Maclay to Prime Minister, 27 June 1919.

had risen from 783 million tons to 9,925m tons.⁴⁷ In March 1918 the Committee appointed to consider the position of the shipping and shipbuilding industries after the war reported. They concluded that the maritime ascendancy of the Empire must be maintained at all costs and that the grave wastage sustained during the war had to be repaired without delay. They advocated the release of shipping from government control as soon as possible, to enable shipping companies to operate again at market rates and recapture their old routes: "It is of the utmost importance that as large a proportion as possible of the world's shipping engaged in trade should be under the British flag at an early date after the war." To this end they also recommended the completion of no less than 2,000,000 tons of merchant shipbuilding annually.⁴⁸

In late 1918 a conference of ministers held at the Shipping Ministry approved the substitution of control by requisitioning with control through direction and license. The object was to try to recover some of the enormous trade which during the war had been lost to Britain. In other words, to restore shipping to the cross trades and more distant routes while there was still the chance that Britain's competitors had not yet established themselves too firmly. By mid-1919 most vessels were off requisition but Maclay advised that the progress towards freedom of movement must be continuous. The war had

⁴⁶ Arthur Walworth, *Wilson and His Peacemakers* (New York and London, 1986) pp. 520-1.

⁴⁷ William Woodruff, *America's Impact on the World* (London, 1973) Table XII, p. 262. The percentage of imports and exports carried in American vessels (by value) rose over the same period from 8.7% to 43%.

⁴⁸ Cd. 9092. *Report of the Committee on Shipping and Shipbuilding Industries after the War* (1918). The Board of Trade Statistical Department reported that the UK had 1,980,000 tons under construction in 1918 compared with 1,957,000 in 1913. Over the same period the figure for the USA had risen from 236,000 to 3,646,000 tons. Milner MSS 31: Summary statement showing the post-war progress of the UK, USA, France and Germany, 16 June 1919. Maclay had recommended that 3 million tons minimum was needed to maintain the equilibrium and that it was undesirable, in view of the post-war position, that the United States should build more rapidly than the UK. CAB 24/19/G.T. 1348.

encouraged the restriction of British ships to British trades. Before the war British shipping had been world-wide and mercantile supremacy had been based on that fact.⁴⁹

Finance and Overseas Investment

By mid-1916 the Asquith ministry faced conflicting war priorities. Britain's role was to provide a land army and naval blockade, to supply munitions, raw materials and shipping to her Allies and raise loans and provide credit for purchases in the United States.

Britain's resources were not strong enough to sustain such a gigantic effort.⁵⁰ The cumulative effect of being unable to meet the cost of the war and not being able to supply equipment and materials for the army from domestic sources, meant that Britain was forced to look abroad for help. The only nation with the resources to match Britain's needs was the United States of America.

⁴⁹ Lloyd George MSS F/35/3/24: Memorandum by the Shipping Controller, 12 June 1919.

⁵⁰ John Turner, *British Politics and the Great War* (New Haven, 1991) p. 94. See also David French, *British Strategy and War Aims, 1914-1916* (London, 1986) pp. 244ff.

The cost of the war constantly outstripped expectations and any attempt by the Government to deal with its finance. In November 1914 the cost of the war was estimated to be around £900,000 per day rising to £3 million by June 1915. During 1916 the daily expenditures rose to £5.7 million with the debt service alone requiring £500,000 per day. By early 1918 this figure had reached £6.7 million. The cost of the war far outstripped the ability of the tax system to cope with it and on average only 25% of expenditure was covered by taxation. See F. McVey, *The Financial History of Great Britain, 1914-1918* (Oxford, 1918) pp. 42-46.

In 1914 Treasury officials warned Lloyd George, then Chancellor of the Exchequer, against relying too heavily on borrowing to finance the war. Nearly half the cost of previous wars had been paid for by taxation. However the taxable capacity of the nation was not exploited vigorously enough from the outset of war. Successive Chancellors preferred to raise enough revenue to cover peacetime expenditure and the interest on any loans raised. The 'McKenna Rule,' which became accepted practice, was not to borrow without imposing new taxation sufficient to provide for the interest on, and a sinking fund to reduce, the new loans. The tax system did expand during the war and revenue with it, from £198 million for the year ending 31 March 1914 to £1,340 million for the year ending 31 March 1920. Figure in Kirkaldy, *British Finance During and After the War, 1914-1921*, p. 209. The main additional burden of taxation fell on direct taxes with the 'normal' rate rising from 1s 2d in the pound (1913-14) to 6s (1919-20). Sidney Pollard, *Development of the British Economy, 1914-1967* (London, 1969) p. 64. The total numbers liable to income tax rose from 1.2 million in 1913-14 to 7.8 million in 1919-20.

In order to equip Kitchener's 'new armies', orders were placed in the United States and American businessmen were only too ready to accept them after the industrial slump of 1913-14. In 1914 Lloyd George, as Chancellor, removed financial restrictions on the purchase of war supplies. Britain was also under an obligation to supply her allies and finance their purchases. Britain had the ability to achieve this, being the financial centre of the world and possessing the world's largest merchant shipping fleet. To facilitate this task the Commission Internationale de Ravitaillement was established on 17 August 1914 to take over the purchasing of supplies and prevent counter-bidding by different Allies scrambling for the same supplies.⁵¹ In October 1914 the War Office sent a Mission to the United States to co-ordinate the purchasing of supplies. This was followed in May 1915 by a Ministry of Munitions Mission which became resident in America. By the end of 1917 the British War Mission had around 10,000 members. It purchased munitions and raw materials, inspected factories and ensured the safe transportation of supplies to prevent sabotage.

In January 1915 it was arranged that J.P. Morgan & Co. should be sole purchasing and financial agents for the British in America. They would "use their best endeavours to secure for His Majesty's Government the most favourable terms as to quality price delivery discounts and rebates and also to aid and stimulate by all the means at their disposal sources of supply for the articles required." The three related firms, J.P. Morgan & Co. in New York, Morgan Grenfell in London and Morgan Harjes et Cie in Paris, connected the major Allies to America. Morgans negotiated the contracts and the War Mission ensured they were fulfilled successfully and delivered safely. Morgans was the

⁵¹ The CIR eventually handled all purchases in Britain and the Empire and most purchases in the Allied countries and most of the neutral countries for France, Russia, Belgium, Serbia, Italy, Portugal, Japan, and

leading investment bank in New York and its head, J.P. Morgan Jr., was an Anglophile and loyal to the Allied cause.⁵² This was important as many of the New York merchant banks had German connections. Sir Edward Holden, a director of the London and City Bank and a member of British financial missions to the United States, feared that the influence of Germans, who banked with New York bankers, would tell heavily against the Allied cause.⁵³

The huge purchases of military and civilian goods from America naturally had an adverse affect on the trade figures. Imports from America rose from £133m (1911-13) to £515.4 (1918), whilst over the same period exports fell from £60.1m to £27.8m. The trade deficit widened from £72.9m to £487.6m and by 1918 almost 40% of Britain's imports came from across the Atlantic.⁵⁴ This vast expenditure led to a shortage of dollars and the deterioration of the sterling-dollar exchange rate. From a rate of \$4.85 to the pound in January 1915, this dropped steadily to \$4.61 by August.⁵⁵ The exchange rate was at first allowed to slide until the declining power of the pound began to affect Britain's ability to purchase supplies. To allow Britain to finance the purchasing of goods and support the exchange rate, gold was shipped across the Atlantic. In the early months of the war gold was deposited in Ottawa to be shipped to America as required. Up to July 1917, some £305 million worth of gold was transferred to the United States. To withdraw more gold from European banks would further affect the credit of those nations and have

Romania. For a brief history of the organisation see *Board of Trade Journal*, vol. 100, (1918) p. 594.

⁵² See Kathleen Burk, *Britain, America and the Sinews of War, 1914-18* (London, 1985) pp. 19-27.

⁵³ McKenna MSS MCKN 5/6: Holden to McKenna, 27 August 1915.

⁵⁴ See Appendix V in Burk, *Britain, America and the Sinews of War, 1914-18*, p. 267.

⁵⁵ See E.V. Morgan, *Studies in British Financial Policy, 1914-25* (London, 1952) p. 345.

an inflationary effect in the United States. In any event the shipping of gold proved inadequate in arresting the decline of the exchange and supporting purchases.⁵⁶

In June 1915 Runciman warned that the export trade would have to revive to its pre-war level or part of Britain's overseas investments would have to be realised to furnish the sums required in America.⁵⁷ From the end of 1915 onwards the Treasury began to acquire and borrow certain American securities from their private owners. These securities were intended as collateral for loans but it became clear that some would have to be sold to maintain payments and stabilise the exchange. At first the scheme was voluntary but later, securities desired by the Treasury and not surrendered were subject to additional income tax. In early 1917 the Treasury received powers to requisition certain securities to strengthen the country's financial position, however the entry of America into the war made this measure largely unnecessary.⁵⁸ It is estimated that £623m worth of dollar securities were utilised by the Treasury. Sales by the American Dollar Securities Committee (1915-22) were valued at £288m generating \$1367m.⁵⁹ Measures such as these helped to stabilise the exchange at around \$4.76 for the duration of the war.

The only course of action available to keep Britain's financial situation fluid was to either reduce spending in America or borrow money to cover the purchases. Lloyd George, as Minister of Munitions, was not in favour of relaxing the war effort. He directed the War Mission to place whatever orders were thought necessary regardless of the cost. He believed the Wilson administration would ultimately step in to guarantee orders. If American manufacturers were forced to choose between losing lucrative orders

⁵⁶ Burk, *Britain, America and the Sinews of War, 1914-18*, pp. 62-66 and 95-99.

⁵⁷ Runciman MSS WR 90: 2 June 1915.

⁵⁸ See Kirkaldy, *British Finance During and After the War, 1914-1921*, pp. 183ff.

or making their own arrangements for financing contracts on the joint credit of the three Allies, they would prefer the latter. The additional cost was not worth considering in a war that had already proved so expensive, and was not comparable to the damage that would ensue to the Allied cause if essential supplies were cut down.⁶⁰

In October 1915 a joint Anglo-French loan of \$500m was raised without collateral security. During the autumn of 1916 and early 1917 the British Government was forced to resort to frequent borrowing. During this period five loans were issued, at varying rates of interest, all based on Canadian and American securities, an indication of how low the credit of the British Government had fallen in America.⁶¹ The raising of loans was fraught with problems. The indecisive military situation on the Western Front, German victories over Russia and constant squabbling by the Asquith Cabinet did little to convince American investors that the Allies would be eventual victors.⁶² American businessmen and politicians were annoyed with Britain over the blockade, black lists and interference with the mail.⁶³ Keynes observed that four-fifths of the needs of Allied Powers depended on the issue of public loans. He warned:

A statement from the US Executive deprecating or disapproving of such loans would render their flotation in sufficient numbers a practical impossibility and thus lead to a situation of the utmost gravity.⁶⁴

⁵⁹ Morgan, *Studies in British Financial Policy, 1914-25*, p. 330. This figure does not include private sales of securities. The total value of British-held securities in America was estimated to be £688m.

⁶⁰ Asquith MSS Box 30: Lloyd George to Asquith, 29 June 1916.

Hardinge held a similar view, stating he was "quite confident that the Americans are making too much money out of the war and do not wish to do anything to stop the supply of munitions etc., and that they will go little further than big words and strong notes." Hardinge MSS Box 25: Hardinge to Spring Rice, 8 September 1916.

⁶¹ See Kirkaldy, *British Finance During and After the War*, pp. 175-183, for a detailed explanation of the British loans raised.

⁶² McKenna MSS MCKN 5/6: Reading (New York) to McKenna, 25 September 1915.

⁶³ On 24 May 1916, the American Government officially objected to interference with the mail. Many US businessmen were convinced that the British were using the opportunity to steal commercial secrets.

His fears were realised on 28 November 1916 when the Federal Reserve Board warned banks against investing too heavily in foreign issues. The announcement sent the price of Allied war bonds and the exchange tumbling. Spring-Rice believed that the announcement was made with an ulterior motive. He wrote:

Notwithstanding that the Board defend their action on technical grounds professedly in the public interest, it is an open secret that it is really instigated in German interests by Warburg and it is believed to be part of an organised movement to bring pressure on the Allies to entertain proposal of peace.⁶⁵

The Board later clarified, after fierce objection from the British, that the statement was not directed against any one particular government but the incident is evidence of the precarious state of British finance in the United States.⁶⁶ A Treasury Mission, headed by Sir Hardman Lever, took up residency in New York in February 1917 in order to provide more immediate contact with American officials.⁶⁷

The entry of the United States into the war allowed Britain to be relieved of the burden of financing the Allies, a task which had caused much of Britain's troubles.⁶⁸ The United States Government lent to the British for purchases in America and similar loans

⁶⁴ CAB 42/23/7: Memorandum by Keynes, 10 October 1916.

⁶⁵ Runciman MSS WR 90: Telegram no. 3581 to the Foreign Office, 28 November 1916.

⁶⁶ On that day Morgans had to buy nearly \$20m worth of sterling to maintain the exchange rate. See Burk, *Britain, America and the Sinews of War, 1914-18*, pp. 84ff.

⁶⁷ The Treasury were increasingly dissatisfied with Morgans handling of negotiations (but not their efficiency or loyalty). Hardman Lever, an expert in cost accountancy, was drafted from America in 1915 to work in the Ministry of Munitions. Born in Britain, he was an ideal choice as official Treasury representative to the United States. He possessed a knowledge of US affairs and the contacts necessary to liaise with Morgans and the US Administration to find funds for British purchases. However by 1918 he had become persona non grata with Secretary of the US Treasury, W.G. McAdoo. For his part, Lever described McAdoo as "a Wall Street failure with designs on the Presidency, [who] presides over the Treasury with more than an eye on his personal ambitions and on politics." T 172/422, 13 June 1917.

⁶⁸ "The financial assistance afforded to the other Allies by the United Kingdom has been *more than double* the assistance afforded them by the United States, and that the assistance the United Kingdom has afforded these other Allies much exceeds the assistance she has herself received from the United States." FO 371/3120/144764: Bonar Law to Page, 23 July 1917.

were made to the other Allied Governments.⁶⁹ However the United States Treasury was, at first, reluctant to provide funds to support the exchange, which was costing \$40m a week to maintain during mid-1917. An Inter-Departmental Committee stressed its importance:

Large sums are at present expended by the Treasury in maintaining the purchasing power of the pound sterling in terms of the dollar. This expenditure is the pivot of our whole financial policy and the foundation of our credit in all parts of the world.⁷⁰

The collapse of the exchange would have been disastrous for the Allied war effort, a fact American officials came to realise reluctantly. They were even less inclined to pay off the Morgan overdraft, despite the fact the British Government believed they had received a definite assurance that it was to be cleared using money from the US 'Liberty' Loan.

McAdoo, the US Secretary to the Treasury, stated that no such promise had been made or could have been made, either directly or indirectly.⁷¹ McAdoo was willing to advance money to Britain for current expenditure but not for capital liabilities. Lord Reading pointed out to the Chancellor, Bonar Law, that now the United States had entered the war the latter had to finance their own schemes. "Whether the resources of the world will allow this programme to be added to the existing programmes of other Allies, which themselves still show tendency to expansion, remains to be seen."⁷² The British

⁶⁹ From 1914 until 1 April 1917, the Allies had purchased goods worth \$7 billion from America. This was financed by: Exports to the US \$1.6bn, gold \$1.1bn, liquidation of short-term US foreign debts \$500m, repatriation of US securities and other foreign investments \$1.4bn and credits \$2.4bn. Gerd Hardach, *The First World War 1914-1918* (Berkeley, 1977) p. 147.

⁷⁰ T 170/95: Conclusions of the Inter-Departmental Committee to consider the Dependence of the British Empire On the United States, October 1916.

⁷¹ Churchill MSS CHAR 15/50B: Memorandum from the United States Embassy (London), 14 July 1917. The overdraft at this time stood at \$400m.

⁷² T 172/446: Reading to the Chancellor of the Exchequer, 15 September 1915.

Reading estimated that the American Treasury would need to find \$1,250,000,000 every month from loans to finance their war effort and warned: "I do not believe these estimates can be realised... The mere

Government eventually had to agree to subrogate the British-owned American securities deposited with Morgan's, as collateral for the overdraft, to the US Treasury. This token of goodwill was in order to pursue the United States to help Britain with her capital liabilities.⁷³ This humiliating concession illustrated the extent to which Britain's extensive commitments in conducting the war had resulted in her loss of financial independence.

The financial challenge to Great Britain

British financial weakness meant that America had the opportunity to challenge Britain's status as the world's financial leader. In 1915 Edward Pratt, Chief of the United States Bureau of Commerce declared:

The banking interests of this country face an unparalleled opportunity. It is an opportunity for expansion into the world's markets and it is the opportunity of making the United States the financial centre of the world.⁷⁴

British overseas long-term investment had reduced during the war to help strengthen the balance of payments. During 1916 and 1917 a series of defence regulations prohibited the export of capital in any form.⁷⁵ New issues on foreign account amounted to £197.5m in

technical difficulties of raising regularly £250,000,000 every month in a country with no established procedure at present either for temporary advance or for Treasury Bills are very formidable...What will save the United States Treasury as it has saved ours in the past, namely, material limitation on what it is possible to buy. Goods will not in fact be forthcoming on a sufficient scale to absorb vast credit to which Departments and Allies are becoming entirely [accustomed]. This will save the financial situation." T 172/446: Despatch from Reading to Sir Eric Drummond, 29 September 1917.

⁷³ See Burk, *Britain, America and the Sinews of War, 1914-18*, pp. 206-14.

⁷⁴ FO 368/1446/54702: 'Relation of Foreign Trade to Domestic Prosperity', 27 May 1915.

⁷⁵ In 1916 the Atlantic Coast Development Company Ltd. approached the Foreign Office in order to gain support for raising capital. The Company had concessions for the development of 5,000 miles of territory in Liberia but wished to raise additional funds to consolidate her position especially since Germany, her main rival, was inactive. The Foreign Office thought the scheme would be to the benefit of British interests in Liberia but the Treasury Committee on the Fresh Issue of Capital refused to issue £5,000 of capital. The Commercial Department commented that they had never been successful in any applications to the Treasury for the issue of fresh capital. FO 371/2696/215358.

1913 but this dwindled to just £17.6m by 1917.⁷⁶ The Treasury Committee responsible for considering new issues of capital limited its assent to undertakings directly connected with the war. Whilst it was considered necessary to release capital for urgent matters of reconstruction, necessary public undertakings and the legitimate support of the business community there was no consideration of the relaxation of capital for foreign enterprise.⁷⁷

Although this measure was effective in the short-term it, along with the sale of American securities, reduced future income from investment abroad. Pre-war overseas investment also played a role in encouraging imports from those countries Britain lent to. The British Government did not believe in the practice of 'tied loans' in order to bring direct orders for British business. Also the British preference for government and municipal securities, railways and public utilities meant that 'portfolio' investment brought in less to British industry than 'direct' investment. Nevertheless it was established that invested capital and import trade ran along the same channels. No matter how ineffectively British capital was invested for the purpose of British trade, it still brought trade. For example, 70% of the railway system in Argentina was British-owned, and as a result Argentina was the largest market for British railway equipment outside the Empire and the destination for around a third of coal exports from South Wales. British investment was described as the backbone of Britain's position and its loss would be a blow to British influence and home industries, of which the Argentines were loyal supporters.⁷⁸

⁷⁶ Table 37 in Morgan, *Studies in British Financial Policy, 1914-25*, p. 264.

⁷⁷ CAB 27/16/EOC. 43: Draft Interim Report No. 7 of the Economic Offensive Committee concerning new issues of capital, 6 December 1917.

⁷⁸ See Platt et al. *Decline and Recovery in Britain's Overseas Trade, 1873-1914* (London, 1993) pp. 72-73 and 106.

In November 1919 a general licence was granted for new issues abroad. During the 1920's new overseas issues averaged around £115 million per year compared with £200 million before the war. This rate was barely enough to maintain the pre-war stock of overseas assets.⁷⁹ The Bank of England also used unofficial pressure to persuade City institutions not to loan capital abroad in case this jeopardised British attempts to get back on the Gold Standard by 1925. American dollar diplomacy combined with European financial weakness had the effect of increasing American financial penetration. United States direct world-wide investment rose from \$2.7 billion in 1914, to \$3.9 billion in 1919 and to \$7.6 billion in 1929. In Latin America, for instance, total US investment in the continent rose from \$1,644m before the war to \$5,369m by 1929 and in Europe, over the same period, investment increased from \$573 million to \$1.3 billion.⁸⁰

European nations attempting to rebuild shattered economies, or developing nations seeking investment capital, looked to the United States for funds. Britain, who had to finance her own recovery and also repay her war debts to America, had comparatively little spare capital to invest overseas after the war. American financial and commercial expansion was prevalent world-wide throughout the 1920s. In Britain, towards the end of the war, there was discussion regarding the risk of foreign capital dominating key industries. In British possessions in the Far East, foreign capital had been excluded to prevent Japanese economic penetration. However, despite the wartime controversy over German domination of key industries, Lord Robert Cecil thought it

⁷⁹ Derek H. Aldcroft, *The Inter-War Economy: Britain, 1919-1939* (London, 1970) pp. 264-5.

⁸⁰ Costigliola, *Awkward Dominion: American Political, Economic and Cultural Relations with Europe, 1919-23* (Ithaca, 1984) p. 149. Britain was still the largest overseas investor in 1929 with assets totalling \$16.86 billion but the United States was not far behind with \$15.2 billion. Cain and Hopkins, *British Imperialism, Crisis and Deconstruction*, p. 46.

would be suicidal to adopt any policy of discouraging investment of American capital in British enterprises.⁸¹

In the post-war Empire Americans were attempting to push forward into traditionally British areas. It had been Britain's intention, after the war, to get back on terms with the United States by controlling raw materials in the Empire, especially oil and rubber. However the need for investment and the availability of American capital tested this policy. After a long struggle with colonial officials, the Guggenheim interests began tin mining in Malay. Union Carbide gained ownership of important chrome mines in Rhodesia by using an all-British management as a facade. After pressure from the US State Department American oil companies were permitted to take a minority share of crude oil output in British-dominated Venezuela, Iraq and Persia.⁸²

The decline in invisible income after the war was noticeable. Some investments, mainly those in Russia, were permanently lost and others had been liquidated for the war effort. Around a quarter of British overseas assets had been lost, amounting to around £1 billion. American debts, the loss of assets, the disruption to the world economy and the subsequent devaluation of sterling (in which all invisible payments to Britain were made) reduced the net income on investment abroad. Shipping income fell due to foreign competition and the collapse of freight rates. Before the war the invisible surplus had

⁸¹ CAB 27/44/EDDC.35: 'Investment of Foreign Capital in British Industries' by Cecil, 15 August 1918. A major example of this post-war penetration was the attempt made by General Electric of America to control the whole of the British electrical manufacturing industry. G.E. had one subsidiary, British Thompson Houston, and bought controlling interests in three other main electrical companies. The chairman of their last remaining rival, British General Electric, was determined to fight off the American challenge. He disfranchised all American shareholders in order to prevent them from gaining a controlling interest. His method was unorthodox but ultimately successful. In 1929, G.E.'s four major companies were merged to form Associated Electrical Industries (AEI), the biggest electrical company in Britain. Dimpleby and Reynolds, *An Ocean Apart* (London, 1988) pp.102-103.

⁸² Costigliola, *Awkward Dominion: American Political, Economic and Cultural Relations with Europe, 1919-23*, pp. 150-1.

been 44% of the value of imports but this was reduced to 29% in the 1920's.⁸³ This all had the effect of reducing the amount of capital that could be reinvested abroad to perpetuate the cycle.

Conclusion.

In a Commons debate on the prosecution of the war, Walter Runciman declared that commercially Germany was a beaten nation.

Her ships are swept off the seas; her export trade is practically at an end; her commercial travellers in South America, in the East, in India, in China, and in Ceylon, are idle; the amount of goods she gets out now are a mere fraction of what she got out in former years, and as the War goes on that quantity will become smaller and smaller.⁸⁴

Yet as Britain sustained damage to her own external trade, through the dislocation of shipping routes and trade connections, a reduction in overseas investment and the liquidation of assets, the fear was that Britain's economic position would be just as dislocated as Germany's after the war. This fear was evident in the concern of British politicians and officials who attempted to warn of the dangers of following a policy of economic expediency and mitigate its effects. Economic warfare through *laissez faire* methods, such as allowing British merchants and manufacturers to attack German trade, had failed. Instead the Government attempted to put in to place practical measures, to provide export credit facilities and better commercial intelligence, which would aid British merchants in their destruction of German overseas trade and permanently assist British exporting industries.

⁸³ Cain and Hopkins, *British Imperialism, Crisis and Deconstruction*, pp. 40-3.

⁸⁴ 77 H.C. *Deb.* 5s. col. 1367, 10 January 1916.

IV

The end of the *laissez faire* strategy: state aid in the economic war.

By mid-1917, the Statutory List had been effective in destroying channels for German trade. Lord Robert Cecil, the Minister for Blockade, thought it was the main instrument in weakening German economic power and making her anxiously look to the period when peace could be restored.¹ Whether this destruction became permanent after the war depended upon the extent to which satisfactory alternative sources for that trade could be found.² Ernest Pollock, head of the Foreign Trade Department, thought the policy was capable of considerable development if the full potential of trade war measures were to be realised.³ He stated

What is required is real damage to the prospects of recuperation, damage by measures which were obviously bound up with the duration of hostilities, and damage which was of a progressive character, so that every additional month of the war meant an increase in the harm done.⁴

Further progressive damage might be done, he thought, by the better establishment of new channels of trade through the extension of the operations to replace those firms placed on the Statutory List. Although in China and the East, British firms had been

¹ 100 H.C. *Deb.* 5s. col. 2094, 19 December 1917.

² In May 1917, a representative of the *Frankfurter Zeitung* stated in an interview at The Hague that "German trade threads with such important commercial centres as Singapore, Hong Kong, Sidney, and Yokohama have not only been broken but smashed beyond repair, because the place of the defunct German has already been occupied by keen trade rivals, who will not again yield the position won without a mighty struggle".

³ Pollock, a Conservative MP, had been chairman of the Contraband Committee (1915-17).

successful in this policy of substitution, in Central and South America it had been the United States who had presented themselves as an alternative source of supply. Sir Edward Carson, chairman of the Economic Offensive Committee, agreed with Pollock's observation that the negative aim of prohibiting German trade and severing her world-wide commercial connections was of little lasting consequence unless accompanied by the positive aim of expanding British trade.⁵

The destruction of German commerce, the cutting of threads in neutral countries, the uprooting of German firms and corporations throughout the British Empire, are all excellent things in their way, but they will only be of negative advantage to ourselves and only of temporary disadvantage to our enemies, unless we and our Allies succeed at the same time in substituting other organisations in their place. Commercial opinion in Germany will certainly be alive to this distinction and will be much more depressed by a *positive* than by a *negative* policy.⁶

This attitude mirrored a shift in thinking in the Committee, from purely vindictive measures aimed at Germany, to more defensive measures aimed at promoting British security and recovery.⁷ The basis of such an economic policy would be for the Government: a) to provide measures, in conjunction with the Allies, to ensure against a

⁴ CAB 24/20/G.T.1447: Memorandum on Trade War by Pollock, 27 June 1917.

⁵ Carson, a Unionist MP, had served as Attorney-General (1915) and then as First Lord of the Admiralty (1916-1917). Until his resignation in January 1918 he was a Minister without Portfolio and a member of the War Cabinet.

⁶ CAB 21/108/G-190: 'Economic Offensive Committee' by Carson, 21 January 1918.

⁷ In January 1918, Carson recommended changing the name to the Economic Defence and Development Committee to reflect this change in emphasis. However it was not until June that action was taken to reconstitute the EOC, perhaps indicating the low priority of economic planning in the Government's thinking.

A sub-committee reported that the results of the established Economic Defence and Development Committee would be "the presentation by degrees of a complete and consistent policy within the economic sphere and security for the due execution of any policy agreed upon." The Committee was to secure regular consultation, under the chairmanship of a member of the War Cabinet, on questions of economic policy and administration; the settlement, without reference to the War Cabinet, of details of minor policy; the presentation to the Cabinet of matters of first class importance; the prevention of departmental overlapping; and the establishment of a body which could follow up decisions. The Chairman was Austen Chamberlain. CAB 27/44/EDDC.2: Report of the sub-committee on the establishment of a Committee of Economic Defence and Development, 4 June 1918.

world shortage in foodstuffs, raw materials, instruments of production and means of transport during the period of reconstruction. The organisation of British and Allied resources would be the greatest obstacles to German commercial aggression and would also be a strong moral position to defend in negotiation; b) to foster trading enterprise in home markets, through safeguarding essential industries, and c) to foster trading enterprise in foreign markets, by providing facilities for the trading community.⁸

The framework envisaged by Carson was not necessarily a unified whole but the sum of individual initiatives. The notion of an economic weapon was a vague concept for politicians to plan or for the Germans to worry about, but the concrete development of government organisations to assist exporting industries could be an achievable goal for politicians and civil servants and a source of concern to the enemy.

Competition from America and Japan in export markets.

At the outbreak of the war the United States remained the one non-belligerent nation with the manufacturing capacity to capitalise on both British and German distraction. Whilst Europe's normal trading patterns were incapacitated, the war stimulated industrial production in America. The United States was not only supplying Europe with additional goods she required but was also making inroads into export markets outside Europe. In Europe, every nation lost out in the war to the United States, with neutral nations losing as much shipping and trade as belligerent powers. Between 1913-29 the US share of world exports increased from 12.4% to 16% whilst Britain's dropped from 15.4% to

⁸ CAB 21/108/G-190: 'Economic Offensive Committee' by Carson, 21 January 1918.

11.8% and Germany's from 11.4% to 9.8%.⁹ The United States threatened to capture not only German trade but also a good deal of Great Britain's trade. The danger was that America would take advantage of a Britain economically hamstrung by war.

The United States Department of Commerce reported in 1915:

The blow in the face received by American industries through the conditions brought about by the European war has acted as a tonic, has forced the nation to create new branches and enlarge the scope of existing phases of manufacture, opened the way to utilise, on a vast scale, great natural resources of the United states, and induced manufacturers and merchants to expand their markets into foreign fields with prospects of permanent results.¹⁰

Trade journals such as the *American Exporter* commented, in tones reminiscent of similar British journals:

Never before in the history of the world has such an opportunity for the big and rapid development of new business presented itself, never again will such an opportunity present itself, as that which now invites, actually beckons, some manufacturers of the United States.¹¹

Nowhere was this more evident than in Latin America. As early as September 1914 the British Consul in Buenos Aires reported that there was every indication that North American firms were using the European crisis to capture the South American market. A memorandum from the Pan-American Union of Washington stated that whilst the war and the suffering of European nations was a cause for profound regret, the business interests of the United States had a duty and responsibility during the crisis which had to be met even if it brought them vast material benefits.¹²

⁹ Frank Costigliola, *Awkward Dominion: American Political, Economic and Cultural Relations with Europe, 1919-33*. (Ithaca, 1984) p. 142.

¹⁰ FO 368 1443/8656: 'The Effect of War on American Industries' 14 September 1915.

¹¹ *American Exporter*, September 1914. Quoted in Burton I. Kaufman, *Efficiency and Expansion. Foreign Trade Organization in the Wilson Administration, 1913-1921* (London, 1974) p. 93.

¹² FO 368/928/60051: 'American Trade in Argentina' 17 September 1914.

The Consul subsequently reported that Argentina had received visits from several delegations from different American Chambers of Commerce to ascertain the prospects of an expansion of American trade which at the time held third place in Argentine imports, Britain holding first and Germany the second.¹³ A publishing company in New York produced journals aimed at acquainting customers in South America with manufacturers in the United States. They claimed that demand for cement, structured materials, road building equipment, water work supplies, hydroelectric machinery and railway constructive materials could be met immediately by manufacturers in America and that credit facilities and shipping could also be arranged.¹⁴ In Latin America Britain had been the main supplier to seven republics, the main countries being Argentina, Brazil and Chile. By the end of the war the United States had replaced Britain as chief exporter to these crucial overseas markets.¹⁵ Between 1913-19, Latin American imports from the United States rose by 161.2% whilst from Britain they rose by just 35%.¹⁶

Initially American businessmen were hampered in their export penetration efforts due to the dislocation of the world's economic system at the outbreak of war. Before 1914 Britain had dominated much of the carrying trade to South America and provided much of the investment capital used by the republics to purchase imports. As British ships were requisitioned by the Government and the provision of international credit dried up, export markets were stifled. It was of little concern to American businessmen who still had the

¹³ FO 368/928/51366: 'American Trade' 21 September 1914

¹⁴ FO 368/928/63481: 29 September 1914.

¹⁵ Exports from the UK to Argentina in 1913 were worth 350 million pesos and remained at 351m 1919. American imports over the same period rose from 166m to 529m. In Brazil, British imports dropped from 247 million cruzeiros to 216m with US imports rising from 158m to 640m. Chile followed the same trend with British imports dropping from 99 million gold pesos to 78m and US rising from 55m to 192m. Figures in B.R. Mitchell, *International Historical Statistics - The Americas*. (2nd ed.) (Basingstoke, 1993) p. 471, 475, 477-8.

lucrative war trade with Europe to satisfy but they were criticised in some quarters for their opportunism in preferring the immediate large profits of the temporary war trade with Europe to the permanent profits offered by the opportunity to consolidate trade with South America.¹⁷ Edward E. Pratt, the Chief of the Bureau of Foreign and Domestic Commerce, warned that European war orders were bringing immediate large profits but were not permanent business and that they were injurious in diverting attention from foreign markets in Latin America, the Far East, Africa and Australia.¹⁸

American reliance on Europe for markets, shipping and trade facilities was recognised by the authorities in Washington before the war had started. The drive for greater commercial organisation was a general aim of the Wilson administration to which the war added greater impetus.¹⁹ To combat this the Americans began to establish their own shipping lines to South America and the Far East. The United States Shipping Board was established in September 1916 to promote the interests of the American mercantile marine. The Board instituted a programme of state construction and in April 1917 the Emergency Fleet Corporation was formed to carry out the task.²⁰

Until 1914, banks in the United States were prevented by law from investing in foreign subsidiaries. The Federal Reserve Act (1913) was amended in 1916 to allow bankers in foreign trade to combine to establish foreign branches, enabling the high risks involved in establishing foreign branches to be spread. By 1919 the National City Bank,

¹⁶ Victor Bulmer-Thomas, *Economic History of Latin America since Independence* (Cambridge, 1994) p. 160.

¹⁷ FO 368/1146/54702: 'United States Trade with South America' from Spring Rice (Washington), 20 April 1915.

¹⁸ FO 368/1652/11277: 'Our Share of International Trade' by Edward Pratt, 4 January 1916.

¹⁹ Kaufman, *Efficiency and Expansion. Foreign Trade Organization in the Wilson Administration, 1913-1921*, pp. 47 and 93.

²⁰ Fayle, *A History of the Great War. Seaborne Trade*, vol. III. (London, 1920) pp. 82 and 103.

the first US multinational bank, had 42 branches in nine Latin American Republics.²¹

This facilitated the export of American goods, aided by a new permanent commercial attaché service funded by Congress through increased appropriations to the Bureau of Foreign and Domestic Commerce. Extra money was made available in 1915 for studying trade opportunities in Latin America.²² The opening of the Panama Canal coincided with the opportunity to expand trade, as a survey of American trade observed:

The opening of the Panama Canal in 1914 supports the conclusion that the war found the United States "ripe and ready" to take her natural place both as a dominating factor in world commerce and as a Pacific trader. The Canal exposed the whole of Pacific Latin America and the Orient to the economic impact of the United States.²³

The Webb-Pomerene Act of 1918 legalised export combinations and monopolies.

It was now possible for competing corporations to divide foreign markets for export penetration. For instance, General Electric could agree to bid for sales in Cuba whilst leaving Westinghouse to do the same in Peru. The signs were ominous for Arthur Steel-Maitland, head of the Overseas Trade Department, who saw the Act as foreshadowing the dumping of American goods in Britain and neutral countries, a fear that had once been harboured against Germany. He went on:

Beyond this, and more important, is the likelihood that competition with ourselves will be more determined and based on real economies of organisation. The whole point is "do the Americans really intend to increase their export trade and use the freedom given by this Act as one of their instruments for doing so?" All present indications show that they have this determination.²⁴

²¹ Victor Bulmer-Thomas, *Economic History of Latin America since Independence*, p. 156.

²² FO 368/1652/f11277/11277: The new commercial attaché service was made possible by an appropriation of \$100,000 by the 63rd Congress.

²³ C.P. Howland, *Survey of American Foreign Relations, 1928* (London, 1928-30) p. 160.

²⁴ CAB 27 44/EDDC. 44: 'Webb Export Bill - USA' by Arthur Steel-Maitland, 7 October 1918.

There was also a feeling of unease in commercial circles at the growing force of Japanese competition. The Government of India regarded it as undesirable that the Japanese should establish themselves in any large scale in India as they believed that systematic commercial penetration might well be the precursor of wider schemes, namely the domination of the East.²⁵ In Bombay there was a general feeling that goods from Lancashire and local mills would suffer considerably from Japanese competition. Japan, being nearer to America than England, could secure cotton cheaper by dealing direct with the cotton districts there and Japan had the advantage of cheap freights offered by Japanese steamship companies. Japanese manufacturers and agents worked on small margins of profit in order to secure a footing in new markets and possessed abundant cheap labour.²⁶ This question of cheap labour did not go unnoticed by Lord Balfour, chairman of the committee on post-war commercial and industrial policy, who was more afraid of future Japanese competition in the future, in the East, than of German competition. He noted that Japan's one enormous advantage was cheap labour and it would be difficult to counteract this, especially having regard to the conditions under which Britain would struggle after the war.²⁷ In South Africa, a leading merchant from Port Elizabeth considered Japan to be the main competitor as they had "a wonderful knack of copying articles" and cheap labour made their competition most formidable.²⁸

²⁵ FO 371/2693/83294: 'Japanese Competition in Indian Trade.' Memorandum from Hardinge (Governor of India) to Austen Chamberlain (Secretary of State for India), 31 March 1916. In a minute, Lord Robert Cecil commented: "The commercial as well as the military and perhaps the political methods of Japan appear to be founded on those of Germany."

²⁶ FO 371/2693/83294: Enclosure no. 3. Note by Mr A. H. Ley, Director General of Commercial Intelligence in Bombay, 21 October 1915.

²⁷ BT 55/13/C&IP 37: 7 June 1917.

Assisting trading enterprises in foreign markets as part of economic strategy.

The destruction of German overseas trade had not necessarily been to the benefit of the British.²⁹ The Foreign Trade Department acknowledged that on the destructive side a considerable amount of success could be claimed for the policy. However in general, constructive work had been rendered difficult by the Treasury's prohibition of new issues and general war conditions. As we have seen, British traders had found it difficult to capitalise on this opening and much of the replacement of interrupted channels of trade had been filled by the United States.

British manufacturers and merchants had been encouraged to export but with little government assistance. Manufacturers also faced Government controls over post-war contracts for finished goods, with a view to conserving raw materials. No contract entered into during the war, for delivery after the war, would be considered as necessarily establishing a good claim for a licence to export. It meant that foreign buyers were reluctant to place orders for contracts as there was no certainty of export.³⁰ Another threat to continuity of trade was the fact that British firms were breaking relations with their agents abroad. Firms were unable to deliver goods for export due to war work. Future trade was jeopardised as once the agents were freed they could move to a competitor.³¹

²⁸ FO 368/1662/187896: 17 August 1916.

²⁹ CAB 27/15/EOC.8: 'The Policy of the Statutory List' by the Foreign Trade Department, 22 October 1917.

³⁰ CAB 27/15/EOC.18: 'Post-War Contracts' by Stanley, 5 November 1917.

In the Economic Offensive Committee, Stanley gave his "grave objection to any measures calculated to restrict markets of manufacturers". Baldwin, the Financial Secretary to the Treasury, indicated the paramount importance of war trade exports in view of the large amount of imports required to be paid for. CAB 27/15/EOC minutes of the 5th meeting, 6 November 1917.

³¹ 'Representation abroad of UK firms,' *Board of Trade Journal*, 100 (1918) p. 669.

Pollock recommended steps to remedy this through the provision of better facilities for traders, such as the provision of a British trade bank.³²

The British Trade Corporation.

It was a common complaint amongst traders that British bankers did little to assist the British trader but were always ready to help the foreigner. The British Trade Corporation (BTC) was chartered in 1917, as a product of the Board of Trade Committee on Financial Facilities for Trade (known as the Faringdon Committee), to remedy the situation. It was to fill the gap between home banks and the colonial and British-foreign banks and banking houses to provide facilities for the British traders. The purpose of the Corporation was to provide funds to industry for the extension of existing manufacturing plant or for the amalgamation of works to aid production. It would assist manufacturers in obtaining orders abroad and give them reasonable financial facilities for executing those orders. It would also give a preference in matters of finance for orders to be executed in Britain.³³

The BTC saw itself as an agent of empire and tried to serve government policy but Whitehall was disinclined to use it and the Foreign Office offered little support. The Foreign Office were opposed to the scheme from the start, believing it would hamper large-scale independent commercial and financial initiative in foreign countries. In their view the investment 'plums' would be sought after by such a powerful institution under Royal Charter, which was assured of all possible facilities from the Board of Trade and

³² CAB 24.20/G.T.1447: Memorandum on Trade War by Pollock, 27 June 1917.

official recognition. However the fact that the Corporation was not under formal government control worried some in the Foreign Office. They were concerned that the Corporation's overseas enterprises might conflict with foreign policy or that the Government would be duty-bound to support the monopolistic exploits of such a powerful British syndicate. If the Government became too closely identified with the Bank it might become morally obliged to support it, even if it turned out to be a failure. They wanted to ensure that the Bank took no decisions that might interfere with general foreign policy.³⁴ When the Corporation's Charter was discussed in the Commons, there was fierce criticism of the scheme which allowed the Government's name to be used without any control over the operation of the institution. The Charter was seen as conferring great privileges and powers without any obligations.³⁵

Despite concluding an agreement with joint-stock banks not to conduct ordinary banking business, not to open current accounts and not to take money on long or short notice, the BTC was still treated with suspicion by other banks and financial institutions.³⁶ The mercantile community also feared that it would not act as a bank to finance British foreign trade but as a rival to British exporters, engaging itself primarily in foreign trade.³⁷ The Charter not only gave financial facilities to exporters but also gave the BTC the power to compete with exporters, "to carry on business as contractors, merchants, or traders on their own account." It was thought merchants would be wary of

³³ Cmd. 8346, *Report to the Board of Trade by the Committee Appointed to Investigate the Question of Financial Facilities for Trade* (1916), p. 4.

³⁴ FO 368/1684/215174: Minutes by Parker, Wellesley, Crowe and Hardinge, 29 October - 10 November 1916.

³⁵ 93 H.C. *Deb.* 5s. cols. 1838 and 1853, 17 May 1917.

³⁶ Percy F. Martin, 'Financial Facilities for Trade,' *System*, 33 (1918) p. 260.

³⁷ *Manchester Guardian*, 5 June 1917.

approaching a potential competitor for financial assistance.³⁸ Several members of the Faringdon Committee, including Faringdon himself, became directors of the new Bank. There was criticism that the percentage of future profits the directors had apportioned themselves would lead to risky speculative ventures and excessive overtrading.³⁹

Although the BTC was not government controlled it did attempt to act as an agent of empire. It attempted to fill the power vacuums left by the collapse of Romanov, Habsburg, and Turkish imperialism. The BTC capitalised the Trade Indemnity Company Limited to provide export credit guarantees for traders and aimed to imitate and supplant German and other foreign banks in export penetration. In 1919 it bought the National Bank of Turkey, the Levant Company and the mercantile firm Whittall, which had branches at Salonica and Constantinople. It invested £100,000 in the Portuguese Trading Corporation (especially started to compete with German interests), formed the Anglo-Brazilian Commercial and Agency Company and participated in the Anglo-Belgian orientated Inter-Allied Trade and Banking Corporation. The Bank also began substantial operations in the Caucasus, Armenia, Georgia and Kurdistan in support of anti-Bolshevik forces.⁴⁰ From this brief outline of its activities it is clear that the BTC sought to entrench British interests in areas where Germany was thought to have been strong before 1914 and could be again. Consequently its business interests, based on strategic criteria, ultimately proved commercially unviable.⁴¹

³⁸ 93 H.C. *Deb.* 5s. cols. 1841 and 1861, 17 May 1917.

³⁹ *Ibid.*, cols. 1829-31.

Faringdon found the "carping criticisms of interested parties somewhat amazing." Runciman MSS WR 161 (1). Faringdon to Runciman, undated.

⁴⁰ R.P.T. Davenport-Hines, *Dudley Docker: The Life and Times of a Trade Warrior* (Cambridge, 1984) pp. 142-7.

⁴¹ The BTC went into voluntary liquidation in 1926.

In a similar attempt to the BTC, the British Stockbrokers Trust was launched in 1918, intended as an issuing house to provide domestic industry with investment capital. The relationship between finance and industry in Germany had always been highlighted as a reason for their successful export penetration. This partnership, so it was claimed, facilitated the promotion of enterprises in foreign countries. It provided finance for obtaining concessions and contracts, from local resources or the British money market, whilst at the same time retaining German control so that Germany could supply the imports of manufactured articles which habitually followed the establishment of such enterprises.⁴² The BST was especially concerned with overcoming the high-handed and overbearing attitude displayed by the London Stock Exchange towards provincial centres. It also adopted the principle of ‘tied loans’, a policy the London Stock Exchange had failed to endorse leading to criticism from British businessmen.⁴³

Part of reason for the initial hostile attitude of the Foreign Office towards the BTC venture was pique at what they saw as being denied representation, by the Board of Trade, on the Committee to Investigate the Question of Financial Facilities for Trade. Crowe described it as a “good illustration of the mischief done by the jealousy of the Board of Trade to eliminate deliberately the considerations of diplomatic interests and experience from the work of their committee dealing with foreign trade.”⁴⁴ This departmental rivalry over the control of government commercial facilities was to intensify over the fate of the Department of Overseas Trade.

⁴² Steel-Maitland (hereafter cited as ASM) MSS GD 193/271/83: ‘German Banking and British Finance’ by Steel-Maitland, c.1917.

⁴³ Davenport-Hines, *Dudley Docker: The Life and Times of a Trade Warrior*, pp. 149-53.

⁴⁴ FO 368 1684/215174: Minute by Crowe, 30 October 1916.

The reorganisation of commercial intelligence.

If the aim of establishing permanent trading connections for British manufacturers and merchants was to be realised, overseas commercial intelligence would play a crucial role in this task. The Overseas Trade Department was established in order to co-ordinate Government facilities towards industry and commerce at home and to provide advice, assistance and information for exporters.⁴⁵ Before the war official commercial interests were shared uneasily by the Foreign Office and the Board of Trade. The former controlled commercial representation abroad; the latter was responsible for distributing commercial intelligence at home and the formation of commercial policy.⁴⁶ Wartime conditions exacerbated this arrangement as both Departments fought for administrative control. The Foreign Office saw its power curtailed by Lloyd George, who preferred to conduct foreign affairs himself, and consoled themselves by organising the blockade which by 1916 accounted for over half their workload.⁴⁷ Eyre Crowe was anxious to keep control of commercial affairs within the Foreign Office to compensate for its diminished

⁴⁵ Ephraim Maisel, 'The Formation of the Department of Overseas Trade, 1919-26,' *Journal of Contemporary History*, 24 (1989), pp. 169-90. Maisel uses the difficulties surrounding the DOT to illustrate how the Foreign Office lost some of its prestige and decision making influence during and after the war. Whilst agreeing with his conclusions this study has a different emphasis, looking instead at how the tribulations of the DOT affected the Department's ability to assist the British export industry and British economic recovery after the war.

⁴⁶ Commercial officials abroad criticised both Departments. The Board of Trade dealt with everything except trade issues and the rottenness of the Consul system was evinced by appointing unpaid Germans to represent British trading interests in Germany. Ernest Hamblock, *British Consul: Memories of Thirty Years in Europe and Brazil* (London, 1938) pp. 13 and 234.

⁴⁷ This factor could account for an element of paranoia which appears to creep into Foreign Office minutes. Parker, a clerk in the Commercial Department, thought there had been a marked and increased tendency by the Board of Trade to eliminate the Foreign Office wherever they could. He cited an instance earlier in the year when the latter had not been invited to a meeting concerning the larger aspects of the oil question despite the Foreign Office having sent the Board of Trade a detailed letter dealing with the issues involved. FO 368/1684/192335: Minute of 29 September 1916.

political authority.⁴⁸ In any case it was obvious to informed observers that foreign political affairs could no longer be separated from commercial affairs as had been the case before the war.⁴⁹ Lord Robert Cecil stated during a Commons debate in 1918 that it was "absolutely true that any attempt to draw a dividing line and say that commercial interests stop here and diplomatic interests begin would be absolutely impossible and fraught with disaster both to commercial interests and to diplomacy".⁵⁰

In August 1916 Crowe instigated his own investigation into the issue as the best way to forestall interference.⁵¹ The Crowe Committee outlined the objectives and functions needed from any Government organisation to promote and assist British trade. The report was critical of the lack of co-operation between the Foreign Office and the Board of Trade on matters of commercial intelligence. It concluded:

There cannot be a British foreign policy as regards commercial matters abroad separate from general foreign policy, of which it forms an integral and important part. There may be special agents charged more particularly with carrying on in an foreign country the commercial side of foreign policy. But if there is to be unity of foreign policy, such agents must derive their authority and receive their instructions from the same Minister who directs the general foreign policy; and, as a general rule, unity and efficiency in policy will be best secured by the greatest possible consolidation of all such agents with the permanent foreign service.⁵²

⁴⁸ Eustace Percy wrote in his memoirs that members of the Foreign Office "had found in this blockade work a more satisfying field of activity and a more tangible touch with realities and personalities than had been afforded by the political moves and counter-moves of an older diplomacy; and they wished ardently to keep their place in this field." *Some Memories* (London, 1958) p. 147.

⁴⁹ Such conclusions were also being drawn in Foreign Ministries in France and Germany where plans were afoot to offer commercial interests greater diplomatic support. See Paul Gordon Lauren, *Diplomats and Bureaucrats* (Stanford, 1976) chapter 5.

⁵⁰ 109 H.C. *Deb.* 5s, cols. 568-9.

⁵¹ Maisel, 'The Formation of the Overseas Trade Department' p. 171.

⁵² ASM MSS GD 193/113/5: Crowe Committee Report, 10 August 1916. The Overseas Trade Committee of the FBI agreed that the Foreign Office was best suited to dealing with commercial questions in foreign countries, if the commercial side of the Foreign Office could be developed along more efficient lines. FBI MSS 200 F 1/1/62: Meeting of 14 November 1916. The Committee also included Algernon Firth, President of the Associated Chambers of Commerce.

Despite the wisdom of such a scheme, opposition from the Board of Trade and lack of interest on the part of Hardinge ensured that it was not put into practice. Indeed, the Board of Trade pushed for the despatch of Trade Commissioners to Portugal and Spain. The activities of Trade Commissioners, who were under Board of Trade control, were normally confined to the self-governing Dominions.⁵³ It was an attempt to expand the intelligence gathering capabilities of the Board of Trade, an activity normally the function of the Consular and Commercial Service. Cecil resolved that the controversy with the Board of Trade had to be put on a proper footing or the public service would suffer.⁵⁴

In January 1917 a Committee, under Lord Faringdon, was appointed to investigate the problem. However the members of the Committee were themselves split over the best course of action. All the members agreed that the commercial attachés should remain under the control of the Foreign Office and that the Consular Service should be enlarged and improved but the question of collating and distributing commercial intelligence proved more divisive.⁵⁵ Dudley Docker (of the Federation of British Industries), Sir John Pennefather MP and Victor Wellesley (Controller of Commercial and Consular affairs at the Foreign Office) believed the distribution of commercial intelligence should be carried out by a Trade Intelligence Department in the Foreign Office. They reported:

⁵³ W.H. Clark, 'The work of the Department of Commercial Intelligence of the Board of Trade,' *British Electrical and Allied Manufacturers Association Journal*, 3 (1917) p. 72.

⁵⁴ FO 368/1684/192335: Minute by Cecil, October 1916. Wellesley saw this as another "disingenuous attempt on the part of the Board of Trade to force the pace" and if this defiance of the Foreign Office continued Hardinge would be justified in denying facilities and a passport.

⁵⁵ Similar battles went on in Washington between the State Department, who wanted to assert control over all foreign relations whether political or economic, and the Department of Commerce. The former wanted the commercial attaché service transferred from the latter. The two departments had fought over the direction of foreign trade since the Department of Commerce's formation in 1903. The Department of State also resented the interference of the Treasury, Shipping Board and War Trade Board in matters affecting foreign relations. See Burton I. Kaufman, *Efficiency and Expansion, Foreign Trade Organisation in the Wilson Administration, 1913-1921*, pp. 77-9 and 218-9.

We think it is impossible to sever questions of commercial policy in foreign countries from general foreign policy, of which they are an integral part. International relations in general depend, and must tend to depend more and more in future, upon commercial relations, and it is inevitable that foreign policy will consequently be affected to an ever increasing extent by commercial and industrial circumstances. We believe that any attempt to retard this development in the interests of mere administrative convenience will react fatally upon the general interests of the country, and that a favourable development can only take place if those in charge of foreign affairs are kept in close and constant touch with commercial requirements.⁵⁶

However, Faringdon and William Clark (comptroller-general of the Commercial Intelligence Department at the Board of Trade) recommended that the organisation of commercial intelligence at home should remain in the hands of Clark's Department at the Board of Trade. The Foreign Office should continue to control the service abroad and closer co-operation between both Departments could overcome the problems of dual control.⁵⁷ Yet it was this dual system that the business community saw as the worst feature of the old system and the underlying cause of nearly all the inefficiency and the lack of energy they complained of.⁵⁸

In September a compromise solution was adopted, mirroring the nature of the Report, with the creation of the Department of Overseas Trade, which was meant to be responsible for the collection and dissemination of commercial intelligence at home, the administration of commercial services abroad and the promotion of British trade. It was headed by Arthur Steel-Maitland who was responsible to both Departments. He

⁵⁶ Cmd. 8715. *Memorandum by the Board of Trade and the Foreign Office with respect to the Future Organisation of Commercial Intelligence* (1917) p. 8.

⁵⁷ *Ibid.*, pp. 9-16.

Nugent, at the FBI, was concerned that Clarke and Faringdon would get hold of the Prime Minister who would commit himself, as he was fond of doing, before he understood what the whole issue was about. FBI MSS 200/F/3/D1/8/2: Nugent to Docker, 3 March 1917.

⁵⁸ FBI MSS 200/F/3/D1/2: Nugent to Algernon Firth, 23 January 1917.

acknowledged there would be difficulties but thought the scheme could work if both sides put away their separatist spirits and trusted his judgement.⁵⁹

For the new Department to work effectively it had to control the activities of the Commercial Intelligence Department of the Board of Trade, as well as the War Trade Intelligence Dept and the Commercial and Consular Departments of the Foreign Office. Needless to say Crowe was loath to let control of the latter slip from the Foreign Office. Steel-Maitland understood that the DOT was viewed with suspicion by the Foreign Office but was "apprehensive lest the new department should be deliberately starved into impotence".⁶⁰ Cecil preferred a more flexible approach without attempting any scientific or complete division.⁶¹ Eventually Steel-Maitland, for the sake of "peace and quiet", agreed to the Commercial and Consular Departments remaining within the Foreign Office until the DOT could be housed in the same building, although he continued to supervise them in his capacity as Joint-Parliamentary under-secretary of State for Foreign Affairs.

The DOT was thus limited to the collection and distribution of commercial intelligence. This in itself was an important and vital task in order to promote and stimulate British export trade, especially now that the end of the war was in sight. The Department took over responsibility for compiling Form K Reports, an innovation to furnish all British exporters with the fullest information, based on consular reports, of potential buyers in foreign markets.⁶² Whilst not exaggerating the degree to which Government could help trade and industry, Steel-Maitland did believe that the DOT could

⁵⁹ ASM MSS GD 193/115/1/46-7.

⁶⁰ Ibid., Steel-Maitland to Cecil, 28 August 1918.

⁶¹ Cecil MSS Add. 51094: Note by Cecil, 6 September 1918.

⁶² FBI MSS 200/F/1/1/62: Overseas Trade and Consular Committee, 5 October 1917.

make a difference.⁶³ Unfortunately the Department was not in such a favourable position as it was badly understaffed and lacked proper accommodation, and its separation from the Foreign Office was used as an excuse by Hardinge to ignore the DOT.⁶⁴

The necessity of maintaining a flow of exports from Britain.

Along with providing the commercial intelligence to enable British traders to exploit openings left by Germany, Steel-Maitland attempted to draw attention to the continuing need to maintain a steady flow of exports from Britain to supply demand. He warned that British interests in foreign countries were undoubtedly suffering heavily from the curtailment of the export of British manufacturing goods. He recognised the necessity for restrictions but urged that it was essential there be more elasticity in the administration of these restrictions. It was obvious that as the war progressed Britain was suffering from an adverse balance of trade and in view of heavy purchases from abroad it was necessary, from the point of view of the foreign exchanges, to maintain the highest possible level of exports. British export trade had been severely curtailed by this gradual increase in restrictions from government licensing, shortages of shipping tonnage and reduction in output due to war production. Increased prices had helped to sustain the value of exports

⁶³ ASM MSS GD 193/115/6/34-37: Steel-Maitland to Bonar Law, 27 March 1919.

⁶⁴ In January 1919 Steel-Maitland wrote to the Prime Minister requesting to be made Assistant Foreign Secretary in order to strengthen his position. "Mr Balfour frankly takes no interest and Lord Hardinge is hopelessly incompetent- as any capable person who knows the Foreign Office from within can testify. The result is that I cannot get my business properly done". Lloyd George MSS F/36/3/3: Steel-Maitland to Lloyd George, 17 January 1919. For Balfour's lack of interest in the commercial side of the foreign Office see Jason Tomes, *Balfour and Foreign Policy* (Cambridge, 1997) p. 195.

throughout the war years.⁶⁵ However, the true decrease in exports is exposed from examining the figures for exportation by volume. By 1919, exports were at just 55% of the 1913 volume.⁶⁶

Steps taken to destroy German trade abroad, under the Trading with the Enemy Acts, could not be truly effective unless Britain was able to step into the position vacated by the Germans. Steel-Maitland thought the Germans were undoubtedly anxious over the potential destruction of their trading position and by encouraging export connections between British and foreign firms the German trading community would become increasingly averse to the continuance of the war. This would have little effect unless German loss of trade could be seen to be permanent and not just a temporary measure. Similarly the Germans were spreading the conviction that British commercial supremacy was being gradually undermined and that Britain was only able to continue the war due to American help. This was given credence when neutrals discovered that British goods were virtually unobtainable.

The ordinary channels of British trade with foreign countries were in danger of being destroyed from export restrictions, the trade embargo with the northern neutrals, government controls over purchasing and selling, foreign competition and the development of local industries in countries formerly supplied by Britain. Steel-Maitland wanted to maintain a certain flow of exports to those markets where, in the absence of such a flow, German influence would become predominant (e.g. Holland) or would be

⁶⁵ Average exports for 1910-13 amounted to £581,201,000 annually. By 1918 this figure had only dropped slightly to £532,364,078. A.W. Kirkaldy, *British Finance during and after the War, 1914-1921* (London, 1921) p. 360.

⁶⁶ Derek H. Aldcroft, *The Inter-War Economy: Britain, 1919-1939* (London, 1970) Table 30, p. 246. In 1913 British exports amounted to 92.1 million tons but by 1918 this had dropped to 39.2m tons, just 43% of the pre-war figure. 'War and Export Trade: An Analysis, 1913-17,' *Board of Trade Journal*, 101 (1918) pp. 736-8.

regained (e.g. Italy). He recommended the exports be spread over as large a range of articles as possible, even if the proportion was small in comparison to demand. Special consideration should be given to the export of goods to supply markets which formerly obtained similar goods from enemy countries. Export arrangements should be assimilated as closely as possible to the normal trade channels and whilst attention should be paid to the requirements of the Ministries of Munitions, Blockade, Shipping and the susceptibilities of allied or neutral countries, the departments concerned should be instructed to co-operate with the intended policy. He ended by stating:

These proposals are put forward on the grounds of the importance of safeguarding our *post-bellum* trade position, of using the economic weapon during the war against the enemy to the fullest extent, and of carrying out by the most efficacious means commercial propaganda which will have a political as well as commercial value.⁶⁷

He recognised the fact that consideration had to be given to post-war planning before the war actually ended if Britain was to gain any benefit.

Steel-Maitland expanded on his proposals with reference to individual countries.

In Holland, for example, the Germans were exporting machinery and merchandise formerly supplied by Britain despite their shortage of raw materials. They sought to obtain a permanent hold over the market by binding Dutch buyers to long-term post-bellum contracts in return for present supplies. The chief commodities recommended for exemption from the embargo and for export licence export in approved cases were textiles, iron and steel goods and machinery, chemical products, electrical goods, haberdashery, medicines, soap, rubber manufacturers, bicycles, high class stationary, cinema films and asbestos articles. Steel-Maitland was convinced that Germany was

gaining by her elasticity whereas the British were losing heavily by their rigidity. He thought there was every indication that Germany had embarked upon preparations for a policy of economic penetration in Holland after the war. Measures included the overrunning of Holland by German commercial travellers, the formation of Dutch companies as covers for German interests, public advertisements of German goods in Dutch cities and newspapers and long-term binding contracts. Although recent British embargoes on exports to Holland (in order to force her to conclude an agreement under which Dutch exports to Germany were to be stopped or curtailed) had alienated Dutch sympathies, there were still powerful Dutch businessmen anxious to stem the present German tide.⁶⁸ The report concluded optimistically: "The markets are ours for the asking but an organic alteration of our methods is of utmost urgency."⁶⁹

The Dutch Department of the Ministry of Information became interested in the paper. They noted cases in which the export of goods would not only serve the purposes of trade but also those of influencing opinion. Yet Cadogan, of the Foreign Office commercial and consular department, noted that the difficulties in the way of the export trade at present were insuperable. The War Trade Department and the Ministry of Munitions could help in some cases by granting export licences and priority certificates,

⁶⁷ CAB 27/44: 'Memorandum respecting the necessity of maintaining a flow of exports from the United Kingdom during the war' by Steel-Maitland, 29 June 1918.

⁶⁸ The British blockade action to interfere with the trade of neutrals carried the risk of alienating foreign customers in those same countries. Alan Johnstone (The Hague) wrote to Hardinge: "The French are a great difficulty. We do all the hard and disagreeable work of squeezing the Dutch and policing the seas - and yet one hears from them perpetually how popular they are here and how unpopular we are. They are ready to take any advantage they can of the position for future commercial use and peaceful penetration to our disadvantage." Hardinge MSS 29: 17 January 1917.

⁶⁹ CAB 27/44/EDDC.11: 'Trade with Holland', 12 June 1918.

but this depended on the needs of the moment and was unlikely to support a sustained policy.⁷⁰

Unsurprisingly these recommendations met with little enthusiasm from other departments concerned. Steel-Maitland could be accused of political naiveté if he believed that the blockading authorities would allow the free export of goods on his list. Simkin, of the Ministry of Blockade, responded that it was essential that any counter-measures aimed against a German economic offensive among the northern neutrals should not impair the efficiency of the blockade.

The future of our export trade will largely depend, if not entirely upon the result of the war, on a direct operation of war like the blockade which must not be sacrificed in the least degree to considerations of post-bellum commercial development. Moreover it is by no means certain that in some commodities at any rate the German economic offensive is not being prosecuted at the expense of their own domestic requirements. If this be the fact so much the better for us.

Eyre Crowe commented that there was undoubtedly an immediate clash of interests was and stated categorically “there never was a blockade which did not also hit the blockader but this as a general proposition is not sufficient reason for giving up the blockade.” Lord Robert Cecil expressed dismay that the Overseas Trade Department had circulated a paper criticising the policy of another department without submitting the paper to that department for comment first.⁷¹ Cecil’s comment reveals as much about the inter-departmental friction between the Foreign Office and the newly established Department of Overseas Trade as it does about blockade policy. However Steel-Maitland’s Department had been established with the specific remit of promoting British trade and

⁷⁰ FO 395/245/f113026/113026: ‘Trade in Relation to Propaganda’ by Eric Hambro and Mr Guest, 22 June and minute by Cadogan, 28 June 1918.

⁷¹ CAB 27/44.EDDC.20: Comments on EDDC. 11, 4 July 1918.

therefore his proposals, although likely to fail, were only concerned with furthering this aim.

The failure of the Department of Overseas Trade.

The Federation of British Industries (FBI) decided to take independent action, despairing of the Government's ability to provide adequate commercial intelligence for manufacturing interests in addition to those of the merchant, banking, shipping and insurance interests. Since late 1916, the organisation's Consular and Overseas Trade Committee had examined the issues of commercial intelligence, the consular service and international trade. They aimed to organise British manufacturers into selling organisations to represent each trade. It was thought that this scheme would reduce the cost of overseas representation for individual firms, eliminate counterproductive competition and produce better commercial intelligence.⁷²

Guy Locock, the assistant director of the FBI, thought that too much was expected by the business community from resident consular officials abroad and that government action alone would never be able to revitalise British foreign trade.⁷³ In 1919 the FBI began to appoint general Trade Commissioners to overseas markets where it was thought desirable to represent the interests of the manufacturer in the marketplace. These

⁷² R.P.T. Davenport-Hines, *Dudley Docker: The Life and Times of a Trade Warrior*, p. 112.

⁷³ Locock, as assistant director, was responsible for overseas policy. He had been a former official at the Foreign Office and in 1917 had served as Steel-Maitland's private secretary at the DOT before leaving to join the FBI. The director, Roland Nugent, had also come from the Foreign Office. He was head of the Foreign Trade Department in 1915 and had taken the lead in reorganising the consular service and establishing the DOT.

Yet despite this representation, there were complaints from members that the FBI was not regarded as a body that could take effective action with government departments and its political influence was

locations included Morocco, Portugal, South Africa, Italy, Turkey, Greece, Spain, Brazil and Scandinavia.⁷⁴ Yet despite the fact that the FBI were providing a specific service for manufacturers, it was recognised by members that they were undertaking work which should have been funded by the government.

In pressing the stringent Treasury for further funds, the combination of the Foreign Office and the Board of Trade appeared a source of weakness rather than strength.⁷⁵ Montagu Villiers described the DOT as,

that mongrel product of Board of Trade and Foreign Office interdepartmental squabbles- a Department well conceived but rendered sterile in spite of the self-sacrificing and heartbreaking efforts of its original organisers, as they themselves will be the first to admit.⁷⁶

Steel-Maitland was anxious that the Department be accommodated with the Foreign Office as quickly as possible, not only so that communications and personal relations between the two Departments could be improved, but also because the present offices in Basinghall Street were unsuitable.⁷⁷ When the Department was granted extra staff by the

negligible. FBI MSS 200/F/3/D1/2/10: Gilbertson (chairman of the South Wales group of members) to Nugent, 6 October 1919.

⁷⁴ FBI MSS 200/F/1/1/62: Overseas Trade and Consular Committee correspondence, November 1918. One of those appointed was Montagu Villiers who had recently resigned as commercial secretary in Spain, citing financial constraints as the reason. He believed that after the war, and as one of its direct lessons, financial provision would be made to enable public servants to perform more adequately the duties apparently demanded by the commercial community. He had optimistically trusted that the DOT would be granted the funds necessary to enable its higher officials abroad to render really useful services to British commerce but had been proved wrong. His salary of £2000 (with £3000 for expenses) was far higher than his previous government salary. ASM MSS GD 193/115/10/220-1: Villiers to Sir Hamer Greenwood, 20 September 1919.

⁷⁵ The Treasury allowed the department £114,000 for its first year. The Wilson administration had voted £40,000 for the Latin-American department alone in their equivalent organisation. It was thought the DOT needed at least £1 million per annum to fulfil its functions adequately. J.M. Kennedy, 'The Functions of the Overseas Trade Department,' *Fortnightly Review*, 104 (1918) pp. 133-5.

⁷⁶ H. Montagu Villiers, *Charms of a Consular Career* (London, 1924) p. 153.

⁷⁷ By March 1919 the pressure of bad housing and under-staffing began to take its toll. Sir William Clark, the Comptroller-General, and Frederick Butler, his Deputy, suffered breakdowns due to overwork, the former being confined to a sanatorium. The pressure affected the health of the staff and also the amount of work achieved. Steel-Maitland noted: "What ought to be most valuable work from the point of view of

Treasury there was no room to house them. A temporary piecemeal solution was to house various departments of the DOT in different buildings.⁷⁸ This state of affairs was not uncommon at a time when Government bureaucracy expanded greatly to cope with the organisation of the war and office space was at a minimum. However the DOT was not a temporary wartime department and warranted better treatment.

Steel-Maitland was anxious lest the move to new offices in Queen Anne's Gate was considered final. He wrote to Curzon: "*Contiguity with the Foreign Office is absolutely essential*".⁷⁹ Out of a DOT staff of 400 there was not one First Division Foreign Office clerk represented. He warned if the Department was to remain, as it ought, in integral connection with the rest of the Foreign Office, it was essential that some of the regular Foreign Office staff should serve there.⁸⁰ Despite repeated requests Hardinge declined to send any Foreign Office staff to reinforce the DOT, despite the fact that the Foreign Office could find temporary replacements from the Consular Service. Contact between the Departments was therefore minimal. Steel-Maitland wrote frankly to Hardinge claiming that the latter was playing straight into the hands of those who wished to see the severing of connections between the commercial services abroad and the Foreign Office.⁸¹

British trade and industry, is largely diminished in value owing to the conditions here". ASM MSS GD 193/115/6/34-37: Steel-Maitland to Bonar Law, 27 March 1919.

⁷⁸ BT 61/3/3: 'Department of Overseas Trade: Organisation and Staff,' 1 August 1919. After the main Secretariat moved to new offices in Queen Anne's Gate Building, the Enquiry Room and Library were still located in Basinghall Street. Meanwhile the Russian Section remained in the Hotel Windsor, the Belgian Section at Regent House and the Exhibitions Branch at Kingsway House. Altogether a third of the total staff were spread around London.

⁷⁹ Ibid., GD 193/115/3/23-26: Steel-Maitland to Curzon, 6 May 1919.

⁸⁰ ASM MSS GD 193/115/6/38: Steel-Maitland to Curzon, 17 March 1919.

⁸¹ ASM MSS GD 193/115/6/60: Steel-Maitland to Hardinge, 24 February 1919. He wrote to Crowe: "I think that I am the only person who at the present time is saving that connection, because I believe it is essential". Same date. GD 193/115/6/56.

Rehousing was stalled by Stanley, the President of the Board of Trade, who claimed that the Department was to be separated from the Foreign Office and relocated entirely within the Board of Trade.⁸² Stanley believed that his proposal for a new building to house both the Board of Trade and the DOT was more feasible than the mooted plans to build an extra storey on to the Foreign Office.⁸³ Steel-Maitland saw this as an attempt to take the Commercial and Consular Service out of Foreign Office control. Steel-Maitland was now of the opinion that if it came to a straight choice, commercial intelligence should come under the remit of the Foreign Office.

The creation of the DOT was intended to unify the commercial intelligence services previously found in the Foreign Office and Board of Trade and to pool resources. The Department was split into two sections, the Overseas Division and the UK Division. The former was subdivided geographically and responsible for administering overseas services and collating economic and commercial information received. The latter analysed reports from abroad from the point of view of benefiting industries at home. However instead of unifying and simplifying commercial procedure all three Departments simply overlapped. The geographical sections of the Overseas Division were not the same as these of the Political Section of the Foreign Office. There was an overlap between the UK Division of the DOT and the Home Industries Department of the Board

⁸² Ibid., GD 193/115/6/47-8: Steel-Maitland to Hardinge, 24 February 1919. Hardinge also received a letter from Rennell Rodd at the Rome Embassy stating the 'Morning Post' had announced the merger of the DOT with the Board of Trade. GD 193/115/6/49.

⁸³ Ibid., GD 193/115/6/71: Stanley to Steel-Maitland, 22 February 1919. This scheme was actually carried out and work completed in 1925 but only due to the intervention of the Prime Minister and Foreign Secretary, Ramsey MacDonald, who secured the required funds. Ephraim Maisel, *The Foreign Office and Foreign Policy, 1919-1926* (Brighton, 1994) p. 10.

of Trade and there still existed duplication of Commercial Departments in the Foreign Office and Board of Trade.⁸⁴

Due to the unsettled state of affairs a Committee was appointed, headed by Lord Cave, to determine the future of the present system. The Committee heard evidence from Sir Auckland Geddes, the new President of the Board of Trade, who advocated the creation of a new 'Ministry of Commerce' combining both the DOT and the Consular Department with the Board of Trade. Eyre Crowe, who returned from the Peace Conference in Paris especially to give evidence, recommended that the DOT be transferred to, and become a department of, the Foreign Office thus combining foreign trade with foreign policy. Representatives from the Chambers of Commerce and the Federation of British Industries expressed the view that separating commercial from political work would be disastrous. Due to its prestige abroad the best policy would be for the Foreign Office to be 'commercialised' and take control of foreign commercial policy.

The Committee recommended that the DOT continue with the present system of dual control but that a Standing Committee be established to facilitate discussion between all three Departments. The Consular and Commercial Departments of the Foreign Office should be transferred to the DOT along with the War Trade Intelligence Department. The Committee also suggested that the DOT should be located in close proximity to, and if possible in the same building as, its parent Departments. The dissenting voice came from Dudley Docker who in a Minority Report stood by the views he had expressed in the earlier Faringdon Report. He saw the system of dual control as "the root of the trouble"

⁸⁴ ASM MSS GD 193/115/3/11-13: 'Notes on the Present Position,' 25 May 1919.

and the best solution for the Foreign Office to take control of foreign commercial policy.⁸⁵

The Report was adopted by the War Cabinet.⁸⁶ Steel-Maitland had resigned his post, dogged by administrative details which had diverted his energies from his objective of assisting export industries and improving Britain's trading position. The question of departmental control was settled but the duplication of functions continued. The meetings of the Standing Committee offer evidence of the confusion that still existed between the three Departments.⁸⁷ The real problem lay not with the departmental structure but with the people controlling it, who refused to put aside departmental rivalries and give the scheme a chance. The Foreign Office, already suffering a loss of prestige and influence, was loath to agree to anything which might further undermine its status. Similarly the Board of Trade was loath to relinquish any of the wartime functions it had arrogated to itself in the process. The DOT was the Government's attempt to prove that steps were being taken during the war to improve trade connections and boost British export trade after the war. It was a practical measure, part of Carson's "organic institution," but it was not given the necessary backing or authority.

Conclusion.

The prosecution of the trade war as a psychological weapon against Germany continued

⁸⁵ Cmd. 319. *Report of the Committee to Examine the Question of Government Machinery for Dealing with Trade and Commerce* (1919).

⁸⁶ CAB 23/10/WC.598: 23 July 1919.

⁸⁷ See BT 60/44: Minutes of the Standing Committees.

throughout the war. From the end of 1917 the policy of substituting British firms for German ones placed on the Statutory List in neutral and Allied countries was carried out by the Foreign trade Department and the Overseas Trade Department.⁸⁸ This dual policy of 'sever and supplant' reached its official height in April 1918 when a British mission, under the charge of Maurice de Bunsen, toured South America. Its general aims were the strengthening of political and economic relations with certain South American countries. However the Mission concerned itself with wartime problems concerning trade war and the economic offensive. The Foreign Trade Department considered it a priority of the Mission to induce South American governments to take further measures against Germany's economic position in their countries and to supplant German influence in the area by British. Shortly after the Mission left Brazil, the Brazilian Government decided to close down the remaining German businesses in the country.⁸⁹

Yet in spite of the best efforts of the officials concerned, the trade war was not effective enough to have a decisive effect on German opinion. German importing houses in South America may have found it increasingly difficult to carry on trading but they still retained their personnel and they were able to plan for the future. There were estimated to be 350 German import houses still functioning in Brazil after the war.⁹⁰ Britain also lost trade and goodwill overseas, although not as a result of a determined campaign by the enemy. British manufacturers were displaced by the United States, Japan or native products.

⁸⁸ CAB 27/16/EOC.35: 'Memorandum on closer organisation between finance and industry as *part* of an economic offensive' by Steel-Maitland, 25 November 1917.

⁸⁹ See Roberta M. Warman, *The Foreign Office 1916-1918* (New York, 1986) pp. 120-37.

⁹⁰ D.C.M. Platt et al, *Decline and Recovery in Britain's Overseas Trade* (London, 1993) p. 66.

Practical measures such as the British Trade Corporation and the Imports and Exports Bill were calculated to disturb the minds of the enemy, provided they were carried through promptly and with determination. The Import and Export Bill had been treated to a hail of criticism from Free-traders when introduced into Parliament in November 1917 and was withdrawn a month later. The Bill was designed to extend controls over goods and raw materials into the post-war period when wartime legislation ceased. It was thought vital as a means of preventing German dumping and controlling British resources. In a harmless light the Bill was a mere administrative measure for smoothing the transition from war to peace. In its most sinister light it was the beginning of state control for external trade.⁹¹ The British Trading Corporation had been similarly criticised in the Commons.⁹² Carson was led to note that if such measures were stillborn, or whittled down or if there is an impression abroad that they will not be seriously enforced, then they are likely to cause more harm than good.

For in that case Germany will regard them as mere bluff. The German Government (quoting from the House of Commons debates and the press) will represent them to their people as measures which are not seriously intended, and to which the trend of British opinion is traditionally and instinctively opposed.⁹³

Yet British blockading officials had attempted to convey the impression to German commercial interests that they would be the real losers if the war continued for any length of time. This threat now had less of an immediate impact and German merchants

⁹¹ The *Manchester Guardian* thought that the period of control (3 years) was too long and the powers too wide. It constituted a "blank cheque to three years of officialdom [continuing the] muddle of war control due to self-sufficiency of bureaucrats." 4 December 1917.

⁹² The BTC had openly been called a "dangerous and mischievous innovation". One MP declared he could not conceive "a more hopeless, destructive and suicidal way of seeking to further the trade interests of British commerce and trade". 93 H.C. *Deb.* 5s. cols. 1840 and 1865, 17 May 1917. See also col. 2448. questions to Cecil, 24 May 1917.

⁹³ CAB 21/108 G-190: 'Economic Offensive Committee' by Carson, 21 January 1918.

expected to regain lost ground against a weakened Britain and an inexperienced United States, whose products they thought of as inferior and their methods rigid and inflexible. However this depended on there being a 'fair field' for commerce and no post-war economic penalisation of Germany. The Allies had already decided that this privilege should be denied Germany and their collective economic strength harnessed to expel German influence and products. The Government attempted to intervene to officially collaborate with her Allies in establishing an economic bloc which would punish Germany and benefit their own economic security.

PART TWO

SUPPLY AS A WEAPON OF WAR AGAINST GERMANY

V

Allied planning for a policy of exclusion: The Paris Economic Conference of 1916.

Whereas German traders were confident that their resourcefulness and experience would allow them to overcome any temporary trade loss due to the blockade, the situation would be different if German goods, trade and services were formally excluded from Allied markets. The list of possible economic measures contemplated was seemingly endless, covering differential tariffs for imports from the Empire, Allies, neutrals and enemies; stringent naturalisation regulations and the denaturalisation of all enemy-born subjects; a timed embargo and then a tax on the export of raw materials to enemy countries; high duties on German shipping using Allied ports; restrictions on enemy subjects working, living or holding property in Allied countries; restrictions on financial assistance to enemy countries and the prevention of enemy banks from establishing branches in Allied countries.¹

Although these economic measures had potential, the practical problem of converting them into a defined strategy, calculated to hasten peace, required precise planning. At the Paris economic Conference of June 1916, the Allies formalised arrangements for the prosecution of the economic war against Germany. The measures proposed at the Conference were designed to aid Allied reconstruction, whilst at the same time penalising German economic activity.

¹ See, for instance, Milner MSS Box 129: 'A memorandum of economic measures which should be adopted by the Allied countries against enemy countries before the conclusion of hostilities': WO 106/1510: 'Note on Restriction of German Trade' by the Director of Military Intelligence, 25 February 1916.

Planning for an Allied economic bloc.

The notion of an integrated Allied economic system was proposed by Etienne Clémentel, the French minister of commerce, who was concerned with the problem of securing raw materials to restore devastated French lands once the war had ended. He wished to use the present solidarity between the Allies to form an economic bloc which would continue after the war. The main aim of this organisation would be to control the raw materials the Allies possessed in order to ensure steady supply at fair prices and to keep German economic 'aggression' in check. This scheme was the international manifestation of a general attempt by Clémentel to corporatise the French economy.²

However similar schemes were being advocated in Britain. Edwin Montagu, financial secretary to the Treasury, officially defined such a scheme as early as December 1915. If the Germans refused to make peace on Allied terms they should be prevented from rehabilitating themselves after the war. Measures would include refusing to buy or sell to the Central Powers, breaking post-war contracts and denying access to ports and coaling facilities. To be in a position to make such a statement would require immense preparation. The Government should negotiate with as many countries as possible for a treaty under which preparations could be made to issue a prohibition of German goods, or a prohibitory tariff, which would be kept in effect for two years for every month Germany prolonged the war.³ Montagu recognised that

² For a detailed analysis of French policy see Marc Trachtenberg ' "A New Economic Order": Etienne Clémentel and French Economic Diplomacy during the First World War,' *French Historical Studies*, 10 (1977) pp. 315-341. This article also forms chapter one of his discussion in *Reparations in World Politics: France and European Economic Diplomacy, 1916-1923* (New York, 1980) pp. 1-27. Georges-Henri Soutou, *L'Or et le sang: les buts de guerre économiques de la Première Guerre mondiale* (Paris, 1989) chapter 5.

³ See CAB 21/108/G-161: 'Trade War - A rough preliminary note' by Montagu, 8 October 1917. Letters from private individuals had been received earlier by Runciman proposing a scheme to

before the war could end the Allies would require geographical and political guarantees and the Germans required economic guarantees.

In December 1915 the French requested a conference to be held in Paris for the purpose of studying measures of economic defence against Germany. The topics suggested for discussion included: legislation prohibiting trading with the enemy, regulation of export prohibitions to afford reciprocal assistance between the Allies, measures for the reconstitution of the machinery for the resumption of normal trade, a study of measures for the liberation of Allied countries from any economic dependence on Germany and the suppression of German activities in the Far East.⁴

At the same time, at the Board of Trade in London, a memorandum was written on the proposed economic entente. It stated that,

it is the duty of the Governments to consider all the hypotheses, not the most favourable only; they must take into account the possibility that Germany at the opening of peace negotiations might still be in a position to discuss the conditions without being reduced to submit to them, and even the possibility that Germany might not yet, up to that moment, have been forced to evacuate completely the territories which she is actually occupying.

The Allies could not accept a peace proposed by Germany; it would be too onerous, or it would be only a truce...But how could a victory be achieved which force of arms had not as yet obtained? There are strong reasons for believing that the exercise of concerted economic pressure would succeed in this; it is even probable that the threat would be sufficient, but it must be a threat evidently ready to be transformed into immediate acts.⁵

conclude a commercial treaty amongst the Allies agreeing to ten years of reciprocal free trade, including freedom of navigation between their ports, and offering neutrals to chance to join. It was suggested such a plan represented "a weapon so powerful, that the effect, if utilised quickly and launched against the Germans without warning would...prove equal to a second Kitchener army with the additional advantage that it does not require any training or munitions." See Runciman MSS WR 124(1): William Petersen to Runciman, 20 September 1915.

⁴ FO 368/1668/f6672: 22 December 1915.

⁵ Runciman MSS WR 143: 'Note on the project of an Economic Entente among the Allied Powers'. 8 December 1915. The memorandum is unsigned and hand-written (possibly by a foreigner as the word 'crash' is spelt 'Krach'). Whether or not it was ever circulated beyond the Board of Trade it must certainly have influenced Runciman's planning for inter-Allied economic collaboration.

A close economic Entente between the Allied Powers, who represented almost two-thirds of the markets of the world and a population of 600 million customers, and the ability to close or open progressively this market offered the possibility of tremendous leverage over Germany. The rapid resumption of the German post-bellum export trade would be vital if she were to have any chance of restoring her economic life. Delay at the beginning, or a long-continued hampering, might be fatal to Germany. In the case of complete victory this economic weapon could be used to make sure Germany complied with whatever conditions were imposed upon her by the Allies. In the event of an indecisive victory at the time of peace, it could be used to compel Germany to vacate any territory she still occupied. It was not merely the political duty of the Allies to conclude such an Entente but an economic necessity to counter the threat of a German dominated Zollverein.⁶

Attention was drawn to the conclusions of the Central European Economic Association meetings in Vienna at the end of 1915, which called for the laying of foundations for a comprehensive economic rapprochement between the German Empire and the two states of the Austro-Hungarian monarchy before peace negotiations were entered into. Calls were made for reciprocal preferential treatment embracing all aspects of economic life. In response, similar calls were made in the Commons for Britain to prepare for corresponding Allied organisation. Recommendations for consideration included a mutual agreement amongst the Allies

⁶ Allied economic planning was partly a response to fears of a Europe economically dominated by Germany. Friedrich Naumann's book *Mitteleuropa*, published in 1915, quickly became a best-seller in Germany and confirmed the Allies' worst fears. Although the views expressed were private and not official a geopolitical entity, from Heligoland to Baghdad, was forming on the Continent. See Henry Cord Meyer, *Mitteleuropa. In German thought and action, 1815-1945* (The Hague, 1955) pp. 206 and 215.

At the Dresden Conference of November 1915 the German and Austro-Hungarian Economic Leagues passed a Resolution declaring it desirable that the Central Powers conclude an economic alliance and carry on a common commercial policy with unity of customs rates. Bulgaria and Turkey were to be included in this economic sphere of interest. *Westminster Gazette*, 1 December 1915.

not to conclude any separate conventions with Germany, special reciprocal trade-tariffs, a common surtax on German goods (to either prohibit goods altogether or provide a fund to compensate territories occupied by the Germans) and the closing of ports to products carried on a German ship or on a ship built in a German port.⁷

Steps toward inter-Allied economic collaboration in order to prosecute the war in a more efficient manner were already afoot. On 27 and 28 March 1916 a meeting was held in Paris of Allied political and military representatives to discuss further co-operation during the war. In a resolution published at the end of the conference, the Allies stated their determination to integrate their views and interests in the economic sphere. A month later on 27 April the International Parliamentary Commercial Conference met, again in Paris, to discuss problems that were likely to arise in the prosecution of the war and also on the conclusion of peace. Issues such as favourable tariff regimes, transport and communication integration and international patent agreements were considered.⁸

The general remit of the Economic Conference was agreed beforehand by Clémentel and Walter Runciman, the President of the Board of Trade. Runciman, a prominent Free-Trader in the Liberal Government, was well aware of the difficulties that a shift towards a more mercantilist economic system might entail. In conversations with Clémentel in February 1916 three general objectives were outlined. First, the natural resources of Allied countries should be conserved to ensure priority for the Allies and neutrals after the war. Secondly, during and after the war the Allies should endeavour to procure their supplies first of all from within Allied countries. Finally, independence from the Central Powers should be sought in goods

⁷ 76 H.C. *Deb.* 5s. col. 387, 25 November 1915. 77 H.C. *Deb.* 5s. cols. 612, 23 December 1915 and cols. 1307-8, 10 January 1916.

⁸ See Marion Siney, *The Allied Blockade of Germany, 1914-1916* (Michigan, 1957) pp. 175-6.

needed for the prosecution of war and peace.⁹ The Board of Trade assumed that some penalisation of German trade would form part of commercial policy. This would be necessary to satisfy the desire of the Allies to foster closer commercial relations, to satisfy public sentiment against a revival of commercial relations with Germany, to provide security for new industries and independent sources of supply, to afford the basis for bargaining when the time came for reopening trade relations, and to allow time to reconstruct and consolidate Britain's industrial and commercial position after the war free from hostile interference.¹⁰

These objectives did not meet with universal approval. If the object of the war was to convert the German public from militarism, a continuing trade war was unwise. A country hedged in by trade restrictions, designed to keep it in permanent impoverishment, might resort to military preparations with a view to another war to end the pressure.¹¹ H.N. Brailsford wrote that "the armed peace, with its basis of economic rivalry, is not our ideal". The acquisition of spheres of influence and economic preserves enhanced competition in armaments, accentuated by the fact that politics governed markets. His book *The War of Steel and Gold*, published just prior to the war, anticipated conflicts over access to the under-developed areas of the world and for investment opportunities and raw materials in the colonies.¹²

During a debate on the forthcoming conference in the House of Lords there were calls for the conference to be used for an alternative purpose. By bringing about agreement for a policy of equal treatment in international trade the regeneration of

⁹ Runciman MSS WR 149: Runciman to Clémentel, 12 February 1916.

¹⁰ Bonar Law MSS 191/53/1/3: Memoranda on Britain's Commercial Position after the War by the Board of Trade, February 1916. Memo. 2: The Penalisation of German Trade.

¹¹ Bonar Law MSS 191/52/4/4: Lord Hugh Cecil to Bonar Law, 4 March 1916.

¹² 'On Peace and Tariffs' by H.N. Brailsford in *The Daily News*, 5 April 1916.

Europe and civilised humanity could be assured. Viscount Bryce made an impassioned speech for the cause of inclusion over exclusion.

It would be a great comfort if one could entertain the thought that out of this Conference with all its perplexities, with all of its evil chances, with its threats of mischief and embroilments with our friends, difficulties with our Allies, and exasperation on the part of the neutrals, we could see the way to adopt some rule of inclusion instead of exclusion, of united and friendly forces, of bringing together in the still undeveloped spaces of the world, where there is room for the introduction of European industry and capital, of the principle of association instead of the principle of antagonism, the principle of working together instead of the principle of continued and permanent animosity.¹³

He was joined by Lord Courtney who thought the conference perilous to the realisation of the principle of helping to re-establish European peace and partnership based on the recognition of equal rights. He thought it an attempt to pursue after the war, in an arena other than the battlefield, a similar enmity and antagonism towards German people, trade and prosperity.¹⁴ However Lord Crewe, who was to lead the British delegation, thought there was no reason for such a despondent view that the future state of Europe was to be one of permanent hatred dividing the great peoples of the world.¹⁵

In settling the remit of the conference with Clémentel, Runciman also outlined three 'delicate' points he wished to avoid in future conversations to avoid embarrassing Great Britain namely; relations between Britain and her empire, old fiscal controversies over protectionism and free trade and the dependence of the United Kingdom on America and other countries for food supplies and raw materials. These points were not just relevant to the Paris Conference but were to dog the entire

¹³ 21 H.L. *Deb.* col. 643-4, 11 April 1916.

¹⁴ *Ibid.*, col. 632. Bryce and Courtney were both early advocates of a League of Nations organisation. Courtney had been a critic of Grey's foreign policy and before his death in 1918 advocated a negotiated peace as a means to shorten the war.

process of Allied economic co-ordination. Runciman now believed that subsequent discussions would be “freed from misunderstandings which are apt to arise if the aims and intentions of ourselves and our respective Governments were left to vague supposition without expression in qualified terms and subject to some limitation.”¹⁶

However Montagu warned that the Government should not be hurried by her Allies, “who have rushed us in so many instances into something prejudicial to British interests”. Such a conference might have far-reaching results and was unthinkable unless the Government was represented by strong and prominent representatives.¹⁷ Crewe thought it too soon to settle post-war questions as there was little impression as to conditions after the war. It was impossible to formulate policy to deal with unpredictable conditions. He thought the representatives should do nothing to restrict the absolute freedom of the country to determine fiscal policy.¹⁸

Runciman did not attend the Conference due to illness.¹⁹ Instead Herbert Llewellyn Smith, of the Board of Trade, was sent along to “try so far as possible to prevent any positive mischief being done.” Writing to Runciman before the Conference, he said: “I think that we all here [at the Board of trade] feel that in view of the large number of divergent interests of the allies represented at Paris little practical result of a concrete kind is to be expected.”²⁰ The British delegation was headed by Lord Crewe, and contained the Conservative Party leader, Andrew Bonar-

¹⁵ Ibid., col. 649.

¹⁶ Runciman MSS WR 149: Runciman to Clémentel, 12 February 1916.

¹⁷ Runciman MSS WR 142: Memorandum by Montagu, 21 February 1916.

¹⁸ 21 H.L. *Deb.* cols. 646, 649, 11 April 1916.

¹⁹ Asquith’s announcement that Runciman was to head the delegation had caused bad feeling. It was felt that the Unionist section of the Cabinet should take a lead on economic policy. Bonar Law MSS BL 53/6: Bonar Law to Asquith, 23 March 1916.

²⁰ Runciman MSS WR 143: Llewellyn Smith to Runciman, 7 June 1916.

Law, and William Hughes, the Australian Prime Minister, both prominent protectionists.²¹

The Resolutions of the Paris Economic Conference.

The Conference met from 14 to 17 June with delegates attending from Britain, France, Italy, Russia, Belgium, Portugal, Serbia and Japan. It defined three periods (the war, post-war transition and 'thereafter') and proposed Resolutions to be acted upon. The war was largely covered by the current blockade policies of Britain and France and the Resolutions would have the effect, if adopted, of bringing the practice of other Allied countries (namely Italy and Japan) in line. Allied nationals and residents were prevented from trading with residents of enemy countries, whatever their nationality; enemy subjects, wherever they resided; persons and companies whose business was in whole or part under the control of enemy subjects. The Allies also agreed to prohibit the importation of all goods of enemy origin and make efforts to unify Allied embargo and contraband lists.

The post-war transition period (of 6-18 months) would consist of a modified blockade to give the Allies a head start with reconstruction and to place further pressure on Germany. The Allies would jointly consider means of restoring territory ravaged by the war, conserve and prioritise the distribution of natural resources and promote trade between themselves by means of special facilities for the transport of goods. The Resolutions were based on what was perceived to be a German economic

²¹ Walter Carter, private secretary to Llewellyn Smith, later wrote: "They were not very impressive in debate, as Lord Crewe was a very hesitating and halting speaker, Bonar Law was inclined to speak in French (which he did badly) and Hughes was very deaf". See FO 370/1840 L2228, 21 April 1949. The *Frankfurter Zeitung* described Crewe as "a distinguished nonentity. A high authority on ties and vests but not on economic affairs." 22 June 1916. Crewe MSS. M/6 (5).

threat. Firstly, that the conduct of the war by the Central Powers had attempted to destroy the economic resources of the Allies. In the occupied territories industrial machinery (of no use for munitions purposes) had been systematically carried off to industrial centres in Germany and Austria. Damage had been deliberately caused to plant not carried off and industrial quarters of French towns had been deliberately selected for bombardment (e.g. the textile producing area in Reims had been reduced to rubble).²² Secondly, the Germans were organising their industries for an attack on Allied markets whilst the latter were still attempting to restore the devastated areas of Belgium, Northern France, Serbia and Poland. There were known preparations to continue further the industrial combinations which characterised German economic organisation before the war, efforts for closer economic relations between Germany and Austria and for a privileged position in Turkish and Bulgarian markets.²³

The proposal was to bind the Allies not to grant most favoured nation treatment to the enemy for a number of years after the war to ensure complete freedom of action for the Allies. Special measures were also to be taken to prevent the 'dumping' of German goods after the war whilst the Allied economies were still in the period of dislocation and transition from war to peacetime economy. However in both cases the exact number of years was left to be fixed at a later date. The precise measures to be taken were left to each Allied country to decide, indicating that although the general sentiments were shared by all Allied countries the future fixing of exact details was likely to prove more difficult.

'Thereafter' (a period of anything up to five years) saw the Allies striving to be independent of Germany in raw materials, industrial products, finance and commerce

²² FO 902/2: Secret weekly bulletin of Trade Information from the WTD. No. 20, 25-31 March 1916. For the economic exploitation of Belgium and the occupied regions of France see Hans Gatzke, *Germany's Drive to the West* 2nd edition (Baltimore, 1966) pp. 151-161.

to prevent the Central Powers from pursuing an economic policy of restriction and domination. The Allies would also co-ordinate merchant shipping, telegraph and postal services and patents to place on a secure foundation the common economic prosperity of the Allied countries. At the outbreak of war it soon became obvious that Britain was dependent upon Germany for a number of products vital for war production such as synthetic dyes, optical and chemical glass, spelter, magnetos and synthetic drugs. This prompted the government to encourage the development of such products in Britain to lessen dependence on enemy supplies. These fledgling industries would need protection against the renewal of severe German competition after the war.²⁴

The reaction in Britain to the Paris Resolutions.

The Resolutions aroused mixed passions when debated in the Commons on 2 August 1916. Asquith claimed that Britain's aim at the Conference had been twofold: Firstly to ensure the Allies were resolved to wage war with complete unity and determination in the economic as well as the military sphere and secondly, to make preparations for the period following the declaration of peace as seemed essential to the Allies in view of the known attitude and will of Germany. He found it impossible to believe that Germany would not be animated by the same aggressive commercial spirit and would not pursue the same trade policies after the war as she had done before.²⁵ This echoed Briand's opening address to the Conference when he stated:

²³ Asquith MSS Box 133: Board of Trade memorandum on Germany and the Economic War, 1916.

²⁴ Cd. 8271, *Recommendations of the Economic Conference of the Allies* (1916). Runciman MSS WR 143: 'Memorandum on the Paris Economic Conference' unsigned, 30 June 1916.

²⁵ 85 H.C. *Deb.* 5s. cols. 332-3, 2 August 1916.

To conquer is not enough. Not merely military and diplomatic unity has been secured but also economic unity which will ensure for us, by means of fruitful harmony, the intensive development of our material resources.²⁶

The Resolutions were approved but not before the Free-Traders had criticised the measures. Philip Snowden saw the Resolutions as an attempt by Protectionists to use the circumstances of the war to carry out the policy they had been denied before 1914. The Resolutions were based on the fallacy that the present alliances would be lasting and that the current hate and enmity towards Germany would be permanent. Once the present fear that bound the Allies together with unity of purpose dissipated, the political alliances would lose their potency as other interests arose.²⁷ The Great War had been coined 'the war to end all wars' but this would not be the case if resentment and animosity were prolonged beyond any peace. Similarly Sir John Simon stated:

I would very much sooner see an economic conference where we are going to enforce terms upon our enemies which will result in an expansion of the trade of the world, and which will really promote peace and prosperity, rather than that we should go in for adopting just the same kind of restriction which has failed to enable Germany to win.²⁸

In an editorial, the *Manchester Guardian* commented that at the end of the war the Allies would have to ask themselves whether they wished to divide Europe into two economic camps, which inevitably meant two military camps, and whether their motivation was their own safety or the desire to punish Germany.²⁹

²⁶ Runciman MSS WR 143: 'Memorandum on the Paris Economic Conference' unsigned, 30 June 1916.

²⁷ 85 H.C. *Deb.* 5s, cols. 382-5.

²⁸ *Ibid.*, col. 353.

²⁹ 'Trade after the War' in the *Manchester Guardian*, 3 August 1916.

See also Harold Storey, *The Paris Conference and Trade After the War* (London, 1916). Storey thought the adoption of the Paris Resolutions would shatter the hope of preventing a future European war and inflict unnecessary economic injury on the British population.

Bonar Law defended his actions by reporting that the feeling of the Conference was that as the Allies had stood together in war, so they should harness the goodwill between those countries and do the same during the period of reconstruction.³⁰ However, in extending the discussion over the Paris Resolutions into the free-trade debate the rationale behind the measures had been missed. The Resolutions were designed to operate effectively in the event of an inconclusive peace. Churchill was one of the few who recognised this fact. He saw them as preparations to keep Germany as materially and financially weak as possible and to secure the greatest concentration of resources for the almost inevitable renewal of conflict.³¹ Temperley, picked up the point in his official history of the Peace Conference. He stated the measures were “short-sighted, impracticable, and running counter to the permanent economic interests of the Allies” and found their only possible justification in the fact that if the programme could be put into effect “it might contribute toward a state of preparedness for another war.”³² Coupled to this notion of an indecisive outcome to the war, the Allied bloc could provide a powerful economic counterweight to German territorial advantages in Belgium and northern France during any peace negotiations.

In the event of the Allies being victorious, the imposition of the Paris Resolutions, beyond ensuring that devastated areas were restored, would undoubtedly be fatal for European economic prosperity. The creation of rival economic blocs ran contrary to the economic interests of the Allies. In a multilateral trading community, of which Germany played a major role, it was impossible for one nation to inflict commercial punishment without injuring her own interests. This theme was taken up

³⁰ 85 H.C. *Deb.* 5s, col. 398.

³¹ *Ibid.*, col. 359.

³² H.W.V. Temperley, *The History of the Peace Conference of Paris* (London, 1920-24) vol. V, p. 65.

in the foreign press once the Paris Resolutions had been announced. An article in the Dutch newspaper, *Nieuus van den Dag*, thought there was no more dangerous regression conceivable than a partition of the civilised world into two enemy camps for a period after the war. It went on:

The decision of the Paris Conference to erect a Chinese Wall between civilized nations is an insane proposal. Both for Belgium and for other countries of the Entente...enormous damage would accrue if they cut themselves off from economic relations with Germany. An economic war to follow the present war would simply signify the suicide of Europe...Even to men on the side of the Entente, the difficulties are perceptible, and they will not really venture to carry out the proposals. It would be impossible to think of a step more detrimental and reactionary.

In Switzerland the *Neue Züricher Nachrichten* claimed the Resolutions were an attack on the economic independence of neutral countries and an attempt to bring them into a position of permanent economic vassalage of the Allied Powers. In Denmark the *Politiken* forecast that the end of the war would see the Entente Powers and the Central Powers as great fighting economic organisations. Consequently “the treaty of peace, which will end the world war as such, will afford the neutral states of Europe no economic peace.” In Christina, *Dagbladet* reported that trade would no longer be the peaceful and friendly bartering of goods but “war to the knife.”³³

The fear was that if Germany was shut out of Allied markets by a system of preference, she would focus her attention on securing the great neutral markets in the world (the United States, China and South America) over whose commercial policy the Allies had no control.³⁴ The Allies would face vigorous competition from an

³³ Crewe MSS M/6 (5): Dossier of comments from the press on the Paris Economic Conference. Articles from *Neue Züricher Nachrichten* 21 June, *Nieuus van den Dag* 22 June, *Politiken* 22 June, *Dagbladet* 25 June 1916.

³⁴ The Commercial Department reported that it was widely understood in Scandinavia that the Paris Resolutions would in all likelihood lead to an inter-Entente customs tariff, prejudicial to the interests of neutral countries, and there was a movement in favour of countermeasures. FO 368/1849/f386/62172:

organised, disciplined and skilled commercial nation in markets where competition was already marked before the war. Amongst the Allies it would be Britain who would bear the brunt of this competition.³⁵ With America still a neutral country at this time, such a prospect was unthinkable. The present political ties between Britain and the United States were strengthened by the huge amount of business the two countries were engaged in during the war, which ultimately ensured Britain's survival. The prospect of Germany having a close post-bellum political relationship with the United States, founded on mutual economic need, was an uncomfortable prospect.

The response to Lord Lansdowne's famous peace letter, published in the *Daily Telegraph* on 29 November, 1917, indicated the Government's difficulty over their contradictory economic aims. Amongst other issues Lansdowne thought the prospect of a commercial war after the peace was unacceptable:

Commercial war is less ghastly in its immediate results than the war of armed forces, but it would certainly be deplorable if after three or four years of sanguinary conflict in the field, a conflict which has destroyed a great part of the wealth of the world, the Powers were to embark upon commercial hostilities certain to retard the economic recovery of all the nations involved.

Before printing his letter, Lansdowne had consulted Arthur Balfour, the Foreign Secretary, over the prospect of a peace debate in Parliament. In his reply, Balfour addressed the issues which would later feature in the letter including observations on the economic war. Balfour stated:

That they [His Majesty's Government] do not desire to destroy or paralyse these [the Central] Powers as trading communities, but that they were determined to secure for this country, from sources upon which it can depend, an adequate supply of the essential commodities.

23 March 1917.

³⁵ Runciman MSS WR 143: 'Notes on Post-Bellum Commercial Policy with Special Reference to the Penalisation of German Trade' by Percy Ashley, April 1916. Sir John Simon in *The Daily News*, 30 September 1916.

I quite agree that we do not wish to destroy Austria and Germany as “trading communities”, but nothing ought to be said which hampers the attack on German commerce as a *war* measure, or (if it should prove necessary) the threat of post-war action in case Germany shows herself to be utterly unreasonable.³⁶

The implication was that economic measures by the Government were aimed at defeating Germany during the present conflict and securing British recovery. They were not overtly aimed against post-war Germany but the effect of achieving British aims could only be at the expense of Germany.

After the war, the British statesmen responsible for the Resolutions claimed they were purely defensive measures designed to counter similar German proposals to establish a *Mitteleuropa* trading area. Writing in *The Times*, Runciman stated:

I was determined that the economic threat and challenge of Mittel-Europa should be met wholly and promptly...All served their purpose, and were out of date when the emergency, political or otherwise, for which they were contrived had passed away. Mittel-Europa had disappeared.³⁷

In September 1914 Bethmann Hollweg, the German Chancellor, had outlined what become known as ‘The September Programme’. This far reaching economic programme envisaged a commercial treaty making France economically dependent on Germany by allowing Germany financial and industrial freedom and securing the French market for German exports whilst excluding British goods. Belgium was to become a vassal state, economically a province of Germany, and Luxembourg a German Federal State. It anticipated the establishment of a central European economic association through common customs treaties with France, Belgium, Holland, Denmark, Austria-Hungary, Poland and perhaps Italy, Sweden and Norway. These

³⁶ Lansdowne peace letter and Balfour to Lansdowne, 22 November 1917. Reproduced in Lord Newton, *Lord Lansdowne* (London, 1929) pp. 464-8.

³⁷ *The Times*, 29 March 1920.

states would formally be equal but in practice would be under German leadership and economic dominance.³⁸ The Paris Resolutions supposed a peace which left the enemy unified and strong with political and economic control over Europe and the Near East. Their pretext perished with complete victory.³⁹

Asquith declared in 1920 that the Paris Resolutions were in reply to the economic war aims of the Central Powers which threatened the Allies with continuing economic and financial warfare after the hostilities were over:

The Paris Resolutions were purely defensive, a declaration of policy directed against that contingency, and that contingency only, and they expressly preserved to each country that it should have complete freedom to use its own fiscal discretion and act within the limits of its fiscal system. There is nothing whatever in the Paris Resolutions which has any application to the circumstances as they now exist, because, as you know, Germany and Austria are impotent to wage anything in the nature of an economic war against us, and there is nothing in them which is inconsistent, or would bind us to do anything which is inconsistent, with Free Trade.⁴⁰

On the eve of the Armistice, Lloyd George was being assured by the Board of Trade that the Paris Resolutions were consistent with a reasonable interpretation of free trade policy but one based on the necessity of maintaining national security and development, a factor the old free trade argument failed to take into account. The Resolutions contained nothing committing the Government to any particular fiscal policy but temporary measures included the denial of most favoured-nation treatment and the plan to ration raw materials, both inconsistent with free trade.⁴¹ This would

³⁸ Fritz Fischer, *Germany's Aims in the First World War* (New York and London, 1967) pp. 103-5. The Programme also advocated the creation of a Central African colonial empire to supply Germany with necessary raw materials.

³⁹ 'The Paris Resolutions: Are They Dead?' by J.A. Hobson in *The Manchester Guardian*, 23 November 1918.

⁴⁰ Asquith at Paisley, 5 February 1920. Quoted in H.W.V. Temperley, *The History of the Peace Conference of Paris*, vol. V, p. 65.

⁴¹ Lloyd George MSS F/2/6/1: Llewellyn Smith to Lloyd George, 6 November 1918.

suggest that with the complete capitulation of Germany imminent, the implementation of the Paris Resolutions still occupied the minds of the Government.

The hesitancy of Allied nations towards adopting the Paris Resolutions.

Each Allied Government still maintained the freedom to eventually determine its own individual economic policy. The prospect of renouncing trade with Germany was not popular with every country. At a preliminary conversation on the subject of the Paris Conference with Runciman, Hymans, the Belgian Minister, stated that geographically Belgium was bound to be mainly dependent upon Germany for trade although her sentiments lay with the Allies. The restoration of Belgium was thought impossible without the restoration of her hinterland, i.e. Germany. Rotterdam and Antwerp were outposts of this hinterland. In 1913 Belgium imported goods worth 600,000,000 francs from Germany, namely coal, tools and machinery. If she refused to import these goods from Germany after the war she would place her industries under great disadvantage unless they could be supplied more cheaply from Britain or America. The cheapness of supplies was considered essential by the Belgian Government in restoring the country's industry. Belgian exports to Germany amounted to 350,000,000 francs and any policy which prevented their selling their goods to this extent would be most damaging to Belgium and could only be contemplated if there were new and equally remunerative markets elsewhere. Hymans was also wary about Belgium coming too closely under the economic influence of France.⁴²

The British ambassador in Tokyo, Sir C. Greene, reported that the Paris Resolutions were uniformly unfavourable in Japan. The Government stressed that the

Resolutions were passed only *ad referendum* and were not binding on the Allied Governments. General opinion deprecated any commercial measures against Germany after the war. It was thought that any economic alliance between Britain and the Allies would only benefit the former and that a system of preferential tariffs to trade between Britain and her colonies would be to the exclusion of Japanese goods.⁴³

The Russian delegation to Paris had not been empowered to give definite promises as to future economic policy, particularly with regard to trading privileges. British delegates reported the main difficulty was the nervousness of Russia and Italy over markets for their produce to compensate for the loss of German markets.⁴⁴ The Russians did not want to agree to any conditions which interfered with their economic development, such as freedom to decide tariffs, and resolved that the nature of future trade treaties could only be decided at a later date in relation to the political situation arising from the war. Russian economic warfare was characterised by considerations of expediency and opportunism which made post-war planning difficult to anticipate.⁴⁵

At a meeting of the All-Russian Agricultural Congress on 10 March 1916 Sorodaevsky, Assistant Manager of the Department of Commerce and Industry, read a paper on the 'War, Agriculture and the future of Treaties of Commerce'. The general tenor of the paper, thought to reflect official views on Russian economic policy on the conclusion of peace, was as follows:

The destruction or undue humiliation of Germany, fully attainable if desired, is not Russia's aim. Germany's isolation would be at variance

⁴² Runciman MSS WR 143: Report by Runciman, 27 March 1916.

⁴³ FO 368/1670/163741: Greene to Grey, 27 June 1916.

⁴⁴ FO 368.1669/f6672/116751: Llewellyn Smith to Harcourt, 16 June 1916. It was hoped that improved and cheaper means of transport both by sea and land could be utilised to facilitate the development of trade amongst the Allies.

⁴⁵ For Russian considerations see B.E. Nolde, *Russia in the Economic War* (New Haven, 1928) pp. 161-165.

with Russia's welfare, and the next treaty of commerce must be based on the principle of most-favoured nation treatment. Of late years Russia exported to Germany a third of her total exports, to the value of 500,000,000 roubles. Where will Russian agriculturists find another such market?

Timiriazeff, a member of the Council of the Empire and former Minister of Commerce and Industry, voiced similar comments in an article in the Petrograd *Bourse Gazette*. He wanted Russia to maintain complete liberty of action with respect to her customs tariff and thought it a mistake to have separate tariffs, one favourable to the Allies and the other unfavourable to Germany and Austria. All concessions obtained by the Allies would, sooner or later, have to be granted to Germany. Russia had in fact used the freedom of action presented by the war to strengthen her tariff system to the detriment of Allies and neutrals, as well as Germany and Austria.⁴⁶

These views were by no means popular or generally accepted in Russia but they did provide an ominous portent for the intended unity of Allied economic action. In September 1916 Sir George Buchanan, British ambassador to Russia, communicated a confidential declaration from the Russian Ministry for Foreign Affairs to be signed by the Allied Governments at the same time as the act of ratification. The declaration would, in giving practical effect to the Resolutions, take into account special economic conditions as well as exceptional situations which it accorded to certain categories of enemy subjects.⁴⁷

For the Contraband Department of the Foreign Office this was the first blow to the Paris Resolutions and evidence that the Russians would not be bound to a boycott of Germany as the volume of cross-border trade was simply too large to replace.

Victor Wellesley, head of the commercial department, commented that it was almost a

⁴⁶ Runciman MSS WR 143: Enclosures in Sir George Buchanan's despatch No. 91 Commercial of 13 March and No. 37 Commercial of 9 February 1916.

law of nature for Russia and Germany to trade owing to their continuous frontiers, diversity of natural resources and economic development. Russia, a large agricultural state with few industries to protect, was well suited to German dumping methods as she looked to purchase manufactured goods in the cheapest markets. Russian desires not to have to relinquish this system were reasonable and logical. He concluded: “Personally, I have no great faith in the efficacy of the Paris Resolutions if only for the simple reason that general agreement as to the measures in which effect should be given to them is impossible of attainment.”⁴⁸

This divergence of opinion within the Allied camp did not go unnoticed in the neutral and enemy press. The general consensus was that the interests of the various Allied countries were so divergent that no arrangement agreeable to all parties could be made. If the Allies did reach an agreement, they would damage their own and neutral interests before those of Germany. This left the Resolutions as a bogey raised by the Allied Powers to frighten their enemies. As the *Frankfurter Zeitung* reported the Paris Conference endeavoured to intimidate Germany through the collection of concessions to bargain with, such as the raising of the blockade and the arrangement of commercial treaties.⁴⁹

America and the Paris Resolutions.

The Resolutions of the Paris Economic Conference were greeted with consternation in Washington. The failure of the Allies to consult the Americans before the conference and the lack of any explicit mention of policy towards the United States left the

⁴⁷ FO 368/1670/190286: Buchanan (Petrograd) to Foreign Office, 21 September 1916.

⁴⁸ FO 368/1670/190590&190612: Minutes by Wellesley, Hardinge and Cecil.

⁴⁹ Crewe MSS M/6 (5): Dossier of comments from the Press on the Paris Economic Conference.

impression that America, as a neutral, would be treated as an outsider.⁵⁰ The *New York Times* thought the post-war plans economically unsound and believed that the war might be prolonged as a result of them.⁵¹

President Wilson was as wary of the Allied economic plans as he was of German proposals for a *Mitteleuropa* trading area. Any organisation consisting of Allied inclusion inevitably meant American exclusion. The Americans had been taking great pains to use the opportunity of the war to increase their share of world trade at the expense of European competitors and in June 1915 they became the world's leading exporter. The success of this policy and the expansion in the export trade of the United States would be jeopardised by the establishment of post-war protectionist trading-blocs. The post-war American industrial sector was increasingly dependent upon foreign supplies of raw materials and so Allied plans to control the domestic and foreign resources they possessed was a cause for concern. The British Rubber Growers Association alone controlled 70% of the world's rubber supply, a vital commodity in the American economy. In 1913 over one half of United States exports had been to Britain and her Empire and one-third of imports were from the same source.

Walter Page, the United States ambassador in London, felt that the notion of a general Allied Zollverein would never be carried into effect or would quickly break down. The Allies would find it impractical to discriminate against neutrals and in the long run trade made its own laws. "It is a war measure", he concluded, "a piece of

Article in the *Frankfurter Zeitung*, 22 June 1916.

⁵⁰ Burton Kaufman, *Efficiency and Expansion: Foreign Trade Organization in the Wilson Administration* (London, 1974) pp. 168-9.

⁵¹ Crewe MSS M/6 (5): Dossier of comments from the Press on the Paris Economic Conference. Article in the *New York Times*, 25 June 1916.

Allied 'frightfulness', like German Zeppelins."⁵² Secretary of State Robert Lansing had other thoughts. He sent a letter to Wilson warning of the dangers the Paris Resolutions held for the future trade of neutral countries. He feared that the preferential system was a real threat due to the vast resources controlled by the Allies and their great merchant marine. He concluded that "the consequent restriction upon profitable trade...will cause a serious if not critical situation for the nations outside the union by creating unusual and artificial economic conditions." He suggested convening a conference of neutrals to meet the threat as "the best way to fight combination is by combination."⁵³ Similar sentiments were echoed by Henry P. Fletcher, soon to be United States Minister to Mexico, who suggested in November the formation of an 'American Economic League' to protect commercial gains made by the war.⁵⁴ Many at Washington, including Wilson, preferred to wait and see what measures the Allies took to implement the Paris Resolutions before taking action. Rather than hastening the commercial division of the world by establishing a retaliatory economic system, he attempted to break down Allied protectionism with his desire for open world trade.

The Allies were vulnerable to pressure from the United States since they were increasingly reliant upon American finance and material supplies for their war effort. However the Allied-American trade relationship was a mercurial affair. As the Allies became more dependent upon the United States so the reverse was true. American economic pressure on the Allies, especially Britain, might have been successful but the political cost would have been high, incurring complaints from American

⁵² Arthur Link (ed.), *The Papers of Woodrow Wilson*, (Princeton, New Jersey, 1966-94) vol. 37, p. 460. Page to Wilson, 21 July 1916.

⁵³ *FRUS. Lansing Papers 1914-1920*, vol. I, pp. 311-312. Lansing to Wilson, 23 June 1916.

⁵⁴ See Michael Hogan, *Informal Entente; The Private Structure of Co-operation in Anglo-American Economic Diplomacy: 1918-1928* (Columbia, Mo. 1977) pp. 15 and 187-8.

merchants and resentment from the British. New York banking circles and certain sections of American industry supported the Allies, if only to ensure payment or the return of their loans after the war. The Americans were linked too closely with Allied financial strategy and purchases to consider risking dislocation.⁵⁵

The beginning of post-war commercial rivalry between the United States and Britain was already evident. It was recognised that the notion of using national economic organisation as a weapon was not only aimed at the Central Powers but could be easily redirected. Senator Lodge thought that victory for either side would bring economic problems for the United States and that the ability to deny an exporting nation access to the American market would be a potent weapon. He stated in the Senate that the victors in Europe,

will try to close the gates of trade and commerce upon us in any directions I regard as highly probable...But if we are to meet this situation, successfully, we must be prepared economically and industrially as I believe we should be prepared physically and in arms. To this end the essential thing is so to organise our industries that they will be strong, independent and ready for the conflict when and if it comes...⁵⁶

Instead of joining with the Allies to hold an economic advantage over Germany, Wilson preferred to hold advantage over all parties. He was aware that Britain and France did not share his views with regard to peace and wrote to Colonel House in July 1917: "When the war is over we can force them to our way of thinking, because by that time they will, among other things, be financially in our hands."⁵⁷

Yet it was thought in Britain that any attempt to read into the Paris Resolutions

⁵⁵ Charles Seymour, *American Neutrality 1914-1917* (London, 1935) pp. 125-6. See also Richard Hofstadter, *The American Political Tradition* (London, 1962) pp. 257-69.

⁵⁶ US Senate, Committee on Judiciary, *Trade Agreements Abroad*, Senate Document No. 491, 64th Congress, 1st session, 8. Quoted in Carl Parrini, *Heir to Empire: U.S. Economic Diplomacy, 1916-1923* (Pittsburgh, 1969) pp. 31-32.

⁵⁷ Alan Dobson, *Anglo-American Relations in the Twentieth Century*, (London, 1995) p. 34.

a determination to carry out a post-war policy of aggression against the Central Powers could only be based on an entire misconception of their scope and purpose.⁵⁸ The Foreign Office tried to reassure Washington that the policy of the Paris Conference was defensive, designed at assisting the Allies rather than deliberately boycotting Germany. In such a process the treaty rights of neutral countries would be scrupulously respected. It was recognised that Britain and the Allies would still be dependent upon the United States after the war for raw materials.⁵⁹ Albert Stanley, the President of the Board of Trade, stated that however complete the victory over the Central Powers might be, the Board had no desire to impose terms of peace inspired by motives of commercial revenge. He recommended that plans for economic peace should be based on economic defence not aggression. He went on:

The permanent crushing of the commercial and industrial power of Germany, even were it practicable, would not be to the eventual advantage of this country, while the attempt to effect it (though doomed to failure) would alienate the good opinion and outrage the moral sense of the civilized world.⁶⁰

Although the Resolutions were never ratified or implemented in Britain they were never renounced either. Fear of upsetting French sensibilities, the propaganda value of such measures and the possibility of a negotiated peace meant they remained.⁶¹ The reasons for non-implementation were the reverse of those for non-renunciation; suspicion of the French as commercial rivals rather than allies, the fact that they had a useful psychological rather than actual effect and the fact that the Resolutions were only necessary in the event of an inconclusive peace.

⁵⁸ Bonar Law MSS 191/61: Butler to Eddison, 21 July 1916.

⁵⁹ CAB 37/158/3: 'Memorandum respecting commercial relations with the United States after the war', submitted to the Foreign Office Interdepartmental Committee, 20 October 1916.

⁶⁰ CAB 29/1/P-12: 'Economic Desiderata in the Terms of Peace' by Albert Stanley, 27 October 1916.

⁶¹ Robert Bunselmeyer, *The Cost of the War 1914-1919: British Economic War Aims and the Origins of Reparation* (Hamden, Conn. 1975) p. 46.

Consequently the policy of the Paris Conference suffered from major flaws. The policy was designed as a bargaining counter to offset the territorial advantages held by Germany and to counter any *Mitteleuropa* trading bloc. Yet the policy remained a threat rather than a fact. The programme outlined was not being steadily implemented as an assurance against defeat nor as a reinforcement of victory and certainly not as a punitive measure against Germany. The hesitation and doubts amongst official circles in Britain and amongst the Allies in general undoubtedly conveyed a less than convincing impression to the Central Powers. The continued opposition of the United States to the scheme, even after their entry into the war, was a major stumbling-block. The vagueness and ambiguity in the drafting of the Resolutions, such as how close relations between the members of the Allied bloc were to be or how elaborate the organisation set up would be, did little to dampen apprehensions on the American side or instil anxiety in the German.

The call for clarification of British policy.

This left British commercial policy in a state of confused limbo which led to calls from various quarters for clarification by the Government. The drift in British economic policy had not gone unnoticed. If the Paris Resolutions were a shift towards protectionism, it was negated by the complete lack of Government resolve for implementation. Ronald Nugent, Director of the Federation of British Industries, doubted whether anyone in high quarters had the faintest conception of a national economic policy and the issues involved. He was worried that at the peace negotiations Germany, and to an extent France, had a full and complete conception of what they hoped to achieve from this sphere and of the immense consequences that

might follow from the material settlements.⁶²

In April 1917, Lord Milner's committee of the Imperial War Committee reported that the Paris Resolutions did not, under the present circumstances, provide any stable basis for the guidance of the British Government with regard to the objects to be aimed at in any negotiations of peace.⁶³ Similar sentiments were made at the Foreign Office where it was thought a fresh conference should be called.⁶⁴ Eustace Percy commented that the Resolutions were a stage in the development of British policy and there was no finality about them. That stage had now been advanced beyond.⁶⁵ At the Paris Conference the Allied Governments had felt bound to prepare for every eventually but as the war progressed the situation had changed. This factor was clearly argued in a memorandum by the Reconstruction Committee. Since the entry of the United States and other neutrals into the war, the increasingly favourable military situation meant the prospects of the continuance of German economic control over territory in eastern Europe and Near Asia was considerably reduced. The apprehension that the Central Powers would be able to renew the economic contest at the moment of peace with "its full scope and intensity" was no longer worrying. The Committee believed that there was ample evidence to show that the Central Powers had nearly exhausted their supply of foodstuffs and raw materials. Even if the blockade did not bring about a collapse of their power, they would still face the gigantic post-war task of restocking their countries. It was thought that it would be many months before the German authorities could overcome the problems of the

⁶² FBI MSS 200/F/3/D1/2/9: Nugent to Sir Robert Hadfield, 6 February 1917.

⁶³ CAB 21/71: Lord Milner's Committee to consider the Economic and Non-Territorial Desiderata in the Terms of Peace, April 1917.

⁶⁴ FO 368/1849/f386/121773: Minutes by Cadogan, Tufton and Hardinge, 20 and 21 June 1917. It was thought that as the Board of Trade had 'fathered' the Paris Resolutions they should be the ones to prepare a statement declaring that the policy was out of date. The Foreign Office had undoubtedly taken exception to the fact that they were not called upon to participate in any aspect of the Paris Conference.

demobilisation of industrial workers, the importation of raw materials and the provision of credit in order to produce on a large scale for export.

The situation at the present called for concerted action amongst the Allies to combat the probable world shortage in raw materials and foodstuffs accentuated by the recent bad harvests and the increased shortage of shipping. It was not so much a case of defending against German aggression, as the Allies providing co-operatively for their own post-war needs. The Committee recognised that despite the final Resolution calling for immediate action, subsequent events had shown the policy proved less acceptable to many Allied countries. The change of regime in Russia added considerably to the difficulties of implementing the measures. Italy had found it difficult enough to enforce the wartime blockade measures against the Central Powers making it unlikely that the Paris Resolutions would be effectively carried out in the post-war period. Belgium also expressed apprehension at the effect of the Paris Resolutions on the prosperity of Antwerp. The Committee concluded that there was a strong case for a reassessment of the problems considered at the Paris Conference and the methods for dealing with them.⁶⁶

Montagu, at the India Office, thought the Resolutions had become dangerous because most of the official activity connected with the preparation of post-war economic policy proceeded on the assumption that the Resolutions held. In a speech introducing the Non-Ferrous Metals Bill into the House of Commons on 3 December 1917 the President of the Board of Trade implied the continued acceptance of the Paris Resolutions. Similarly in a series of supplementary questions in the House of Commons on 13 May 1918 the Chancellor of the Exchequer implied that the Paris

⁶⁵ CAB 27/44/EDDC. 5: 'Statement on our Economic Policy' by Eustace Percy, June 1918.

⁶⁶ BT 55/13. C&IP 43: 'Memorandum on Post War Commercial Policy in the light of recent events' by the

Resolutions were the basis of the Government's economic policy.⁶⁷ Montagu advocated the sweeping away of this assumption in return for a surer foundation to British policy, of which the United States were a part.⁶⁸

Eustace Percy, who was closely involved in the problem of relations with the United States, thought that since the Government had practically abandoned the Paris Resolutions as a satisfactory basis of policy, the continued implied acceptance of the Resolutions was counter-productive to good relations with America.⁶⁹ He stated that Wilson wished to decide policy in conjunction with the British but the latter's silence implied that Britain was still under the influence of Clémentel and the Tory protectionists over ideas on trade. A British declaration of agreement with Wilson's definition of the economic war-aims of the Allies would be "a weapon against Germany of the first magnitude." Such a declaration need not involve an explicit abandonment of the Paris Resolutions. It could be made more threatening by referring to the economic peace terms imposed by Germany on Russia, Lithuania, the Ukraine and Romania "as representing the kind of settlement which, if persisted in, must in our opinion involve the forfeiture by Germany of free commercial intercourse with the Western nations."⁷⁰ Britain saw its pre-eminence in world finance, trade and shipping under threat from the United States during the war. Eustace Percy was an advocate of offering to share world economic leadership with America and by conceding some ground to prevent being totally overwhelmed.

Reconstruction Committee, July 1917.

⁶⁷ 100 H.C. *Deb.* 5s. 3 December 1917 and 106 H.C. *Deb.* 5s. col. 31, 13 May 1918.

The *Manchester Guardian* commented on Bonar Law's statement: "A world in which each Power or group of Power's seeks to monopolise markets and sources of raw materials and to deny these to other Powers is not a happy world to contemplate." 14 May 1918.

⁶⁸ CAB 21/108/G-161: 'Trade War' by Montagu, 8 October 1917.

⁶⁹ Percy, had been posted to the Embassy in Washington from 1910-14 and 1917-18 before joining the PID.

⁷⁰ FO 371.4360/81: 'The United States and the Economic Offensive' by Eustace Percy, 26 April 1918.

Others held the opposite view. Sir Edward Carson, champion of Tory protectionism, was disturbed by the failure of the Government to carry out the Resolutions of the Paris Conference. He believed the policy contained in the Resolutions was just as vital to the interest of the country and to the prosecution of the war as anything that had ever emanated from the War Office.⁷¹ The central difficulty agitating the German authorities was the provision of raw materials indispensable to the renewal of industrial life and export trade. He commented on a report in the *Frankfurter Zeitung* which stated that German economic aims were much more important than her geographical aims and constituted the central question of the future peace. Germany must secure the absolute right of settlement in foreign countries, complete freedom to import raw materials and must defeat the economic schemes of her enemies by securing most-favoured-nation treatment. Carson thought the best way to profit from German fears about their commercial future was to convince Germany that the longer the war continued the worse her commercial prospects would be and to prepare for the Allies a sound economic foundation to serve as a basis for negotiation when serious peace negotiations were discussed.⁷² For Carson there was no distinction between Allied economic co-operation for mutual post-war recovery and the prosecution of the war against Germany.

Conclusion.

The fact that Britain and France were the only two nations to ratify the Paris Resolutions could indicate that the policy was a failure. The Allied economic

⁷¹ 85 H.C. *Debs.* 5s. col. 347, 2 August 1916.

⁷² CAB 24/4 G-156: 'Memorandum on Economic Offensive' by Carson, 20 September 1917.

community the Conference was supposed to inspire did not materialise. Yet the willingness of Britain and France to organise a concerted economic policy was enough to have an impact. After initial scepticism Germany did begin to take the threat seriously. Georges-Henri Soutou sees the importance of the Paris Conference, not necessarily in the implementation of the Resolutions, but in the process of co-operation itself. The Resolutions continued to inspire, and opened economic and political dialogue between London and Paris.⁷³ This was important if both countries were to use the potentiality of their combined economic strength, whether for the purposes of influencing German economic opinion, reconstruction purposes, post-war security or commercial advancement.

⁷³ Georges-Henri Soutou, *L'Or et le sang: les buts de guerre économiques de la Première Guerre mondiale*, p. 271.

VI

The strategy of control: Allied hold over raw materials and the effect on Germany.

At the Paris Economic Conference of June 1916 the Allies sketched out a comprehensive package of economic war aims. Converting many of these aims into policy was for many Allied countries, such as Russia and Belgium, neither easy nor desirable. It became increasingly obvious that the Paris Resolutions would not be implemented in the way in which they were intended. Nevertheless, it was thought that some measures would make greater headway if disassociated from the controversial Resolutions. One such measure was that of controlling Allied raw materials.

Since the outbreak of war there had been calls to capture German trade as part of an economic offensive, but almost exclusively from the perspective of exports. One vital factor on which the German export trade was based had been ignored, namely raw materials for utilisation in industry. German industrial activity could be curtailed by absorbing the bulk of the world's raw materials. A plan materialised to use the near monopoly the Allies possessed in certain raw materials to secure materials necessary for post-war industrial recovery. At the same time Germany would be denied raw materials which she might have used to launch a post-war economic offensive or for reconstruction. Certain blockade measures would be used to more long-term effect in order to achieve Allied control over the world's supply and distribution of raw

materials.¹ This 'economic weapon' was even grandiosely touted by some as a possible method of coercion for use by the new League of Nations, the germ of economic sanctions.²

The threat of an economic boycott as a war weapon had many advocates in political and military circles. It was generally believed that planning for the economic penalisation of Germany after the war could be used to induce Germany into an early settlement or at least cause friction between industrial and business classes and the ruling caste in Germany.³ The prospect of inter-Allied economic planning alienating the world's most powerful neutral temporarily abated with the entry of the United States into the war as an Associated Power. The United States joined with the Allies in vigorously enforcing blockade and other economic measures against Germany for the prosecution of the war and it was hoped, given correct handling, that this wartime collaboration could be capitalised upon.

¹ It was clear that if Germany was free to dispose of her mercantile marine on the open market she would be at liberty to procure the resources of countries not presently at war with her. On the other hand, if Germany were denied the use of her mercantile marine, whether under German or neutral flag, such a denial would be equivalent to the holding up of materials. A lack of carrying facilities would mean a lack of goods to be carried. The Allies could bring about such a result by refusing to supply Germany with bunker coal, refusing to allow Germany to use coaling stations, denying access to the Panama and Suez canals and to port facilities. CAB 27/15/EOC.4: 'Economic Pressure on Germany' by Alexander Shaw, 14 October 1917.

² Peter Yearwood puts forward the view that the attempt to link the idea of a League with the conduct of an economic offensive against Germany was perhaps the most important and certainly the most controversial of the new ideas in the second half of the war. Previous histories of the League have tended to concentrate on the origins of various clauses of the Covenant, such as guarantees, sanctions and disarmament, rather than the strategy of the 'economic weapon'. See 'Real Securities against New Wars': Official British Thinking and the Origins of the League of Nations, 1914-1919,' *Diplomacy and Statescraft*, 9/3 (1998), pp. 91-93.

³ See Runciman MSS WR 142: Kitchener to Runciman, 25 February 1916; CAB 24/10/GT.411: Memorandum by Reconstruction Committee, 11 April 1917; CAB 21/108/GT.2113: Memorandum by Henry Page Croft, 21 September 1917; CAB 24/28/GT.2239: Note by Montagu, 8 October 1917; CAB 21/108: Tyrrell to Hankey, 21 May 1918.

The control of channels of supply as a method in British economic warfare.

In December 1916 Alfred Zimmermann, at the Ministry of Reconstruction, circulated a paper which stated that Germany would come to a peace conference with an economic programme of a liberal nature, designed to attract the sympathy of neutrals, and attempt to persuade the 'League of Nations' or other international body to secure its implementation.⁴ He thought the general terms of the programme could include: the freedom of the seas; most-favoured-nation treatment in perpetuity between Germany and her present enemies on the model of the Treaty of Frankfurt; a most-favoured-nation clause to include prohibition of differentiation against German immigration, trading interests, patents, shipping etc.; maintenance of the 'open door' in all dependencies of European powers and equal shipping facilities for all nations. Preferential trading between colonies and the mother-country, including self-governing colonies, would not be permitted.

Although these terms would render the Paris Resolutions nugatory by virtue of international action, Zimmermann believed they were not the main preoccupation of the German mind. The Germans were aware that passive resistance amongst the populations of Allied countries to German goods would be prevalent immediately after the war, regardless of whether their trading rights had been secured by treaty. Therefore the Germans were prepared to meet the difficulty by finding fresh markets in neutral countries (which at this time still included the United States) and exporting through neutral countries to hide the origin of their goods. They had enough confidence in the technical excellence of their goods and their commercial techniques to always find a market somewhere. German merchants were increasingly of the

⁴ Steel-Maitland MSS GD 193/113/5/1 Item A: Memorandum on trade after the war by Zimmermann, 30 December 1916.

opinion that as the war progressed both Germany and Britain were equal losers in the economic war for markets to the United States.⁵ What they were more anxious about was the safeguarding of sources of supplies of indispensable raw materials for their exporting industries.

During the war the world had been consuming raw materials at an increased rate with the Central Powers taking less than usual. It was reasonable to expect that at the conclusion of peace the reserve stocks of raw materials imported from abroad would be depleted in most countries and exhausted in the case of the Central Powers. World production would not be able to cope with the sudden increased demand to make good the deficiencies. Even if Germany were able to secure quantities of raw materials the purchase price would probably be excessive. The economic struggle at the end of the war would centre around the purchase of raw materials rather than the sale of goods. Trade prosperity in the future would rest with those who managed to secure adequate supplies of raw materials as demand for reconstruction was expected to be high and available tonnage in short supply. In this sense *supplies* gradually became more important than *markets* in the formulation of British war aims. Allied post-war recovery depended on the efficient economic organisation of the resources at their disposal and this meant to the exclusion of the Central Powers.

British planners returned to the notion of using the prospect of a trade war after the end of hostilities as a means to pressurise Germany to hasten an acceptable peace. Such a threat could not only induce peace but also secure a satisfactory settlement for the Allies, for example by trading 'most-favoured-nation' status for territory. The desire was to discredit the policies of the ruling caste in Germany amongst their own population. Measures could be taken to exploit the alarm, already

⁵ Runciman MSS WR 143: Translation of an article from the *Neue Hamburgische Börsen Halle* entitled 'Considerations concerning the future of German export by sea - An enquiry', 9 April 1916.

considered manifest in Germany, at the idea of a post-bellum trade war and the retardation of German commercial recovery by the creation of a weapon to permit such action to be taken effectively if required. There was a strong case for abandoning the trade war once these objectives had been achieved. There seemed little sense in forcing German commercial interests into alliance with the military caste in order to fight a punitive war to overturn post-war economic discrimination. There may have been differences of opinion over the expediency of using such a weapon but this did not diminish the desirability of its creation. What needed to be stressed was that the danger of the Allies continuing a post-bellum economic war was contingent on the actions of the Germans themselves.⁶

French motivation and drive for the adoption of such a scheme.

Such ideas received an impetus in August 1917 with the visit of Etienne Clémentel, the French Minister of Commerce, to Britain to discuss arrangements to combat supply and distribution problems.⁷ The opinion was held by certain sections of the French Government that complete military victory over Germany could not be achieved.⁸ Mutinies swept the French army in May and June after the failure of the Nievelle offensive and the descent of Russia, France's long-standing ally, into

⁶ CAB 24/20/GT.1447: 'Memorandum on Trade War' by Ernest Pollock, 27 June 1917. The memorandum was accompanied by two appendices consisting of reports from a variety of German newspapers. The first dealt with German opinions of the trade war under the headings of (a) Tariff war after the War, (b) The destruction of overseas trade connections and (c) Withholding from Germany of necessary raw materials. The second dealt with the merchants in Hamburg and Frankfurt and the trade war.

⁷ See J-B. Duroselle, 'Strategic and Economic Relations during the First World War' in *Troubled Neighbours: Franco-British Relations in the Twentieth Century*, (ed. Neville Wailes) (London, 1971) pp. 54-56.

⁸ Such views were enunciated in Britain but not officially. In the Commons Henry Page Croft declared that out and out victory was not possible any more for groups of nations in the war, because it meant an interminable campaign where decimated nations would be called upon to wage war for many years to come. Ironically this statement was made on 8 August 1918, 'the black day of the German army'. 109 HC. *Deb.* 5s. col. 1603.

revolution raised doubts over how long her co-operation in the war would continue. With the offensive capacity of the French army curtailed Clémentel advocated the abandonment of all military offensives for the remainder of the war. The Allies would stand on the defensive and rely on the pressure of an economic offensive to force Germany to accept terms.⁹

In order to turn this idea into a practical scheme four things were required, namely; credit, ships, the co-operation of the British Empire and the United States, and organisation. Of these four essential elements the French possessed only the last and even then in a rudimentary state. It was with British ships, credit and colonial markets that France proposed to organise this economic pressure. There was no objection to this from Britain as she too desired the defeat of Germany, so long as the policy did not prejudice the interests of the Dominions. It was essential that control of a policy vitally affecting the interests of the British Empire should not pass into the hands of French organisations.¹⁰ It was suggested that France was aiming to secure a position of greater importance (as regards raw materials) than was justified by her standing in world industry and was also counting on more favourable treatment from the United States than the British Empire would receive.¹¹

During his visit Clémentel took the opportunity to circulate proposals for utilising Allied control over the principal raw materials of the world as a bargaining asset in the eventual peace negotiations with Germany.¹² There was another motive in his proposal, namely to secure by agreement a certain proportion of British-controlled raw materials for France without having to be dependent upon British bounty for

⁹ CAB 27/15/EOC.3: Clémentel on his scheme for a joint economic offensive, 14 October 1917.

¹⁰ CAB 24/29/GT.2379: 'French Economic Policy', 18 October 1917.

¹¹ CAB 27/16/EOC.48: The assistant British commercial attaché in Paris wrote that it was "the nature of the French people to take in every possible advantage in matters affecting their financial and economic interests without being too scrupulous as to the methods employed", 19 November 1917.

them.¹³ Clémentel noted that with the exception of the Argentine Republic all the world's major producing countries were on the side of the Allies. By reaching an agreement between themselves the Allies could gain control over the principal economic markets, controlling and distributing raw materials and food. During the war this obviously made for a tight blockade and adequate provisioning for the Allied armies. After the war it could act as a powerful lever to persuade Germany to accept Allied peace terms. This scheme would only be possible with the complete co-operation of France, Britain and the United States. It would be necessary to enlarge the scope of the existing inter-Allied Executives which already controlled the purchasing and supply of many main commodities, such as wheat. It should also be made clear that the use of this weapon by the Allies was for altruistic ends, "a powerful means of decision in favour of the humane peace, based on the law of nations, which is their common aim."¹⁴

The machinery of inter-Allied economic co-operation.

Economic co-operation between the Allies began at national level. In Britain the gradual imposition of a controlled economy meant that by 1918 over 90% of supplies imported were purchased, transported and allocated by official bodies. Between them the Ministry of Food and the Ministry of Munitions (ferrous and non-ferrous metals, chemicals for explosives and mineral ores) controlled 70% of the country's imports. The War Office (wool, flax, jute, hemp, hides and leather) directed another 10%. The

¹² Georges-Henri Soutou, *L'Or et le sang, les buts de guerre économiques de la Première Guerre mondiale* (Paris, 1989) pp. 481-90.

¹³ CAB 23/3/W.C.220, 20 August 1917. The War Cabinet instructed the President of the Board of Trade to report on Clémentel's scheme after consultation with the Foreign Office, the Ministry of Blockade and the Ministry of Munitions.

Board of Trade established some regulations and controls over the remaining imports (important commodities included timber, cotton, paper and pulp) and the Admiralty also controlled certain articles. Together the latter two Supply Departments directed 15% of total imports.

This national control extended gradually into the international field. In the case of wheat, during 1916 a Royal Commission on Wheat Supplies was established to purchase, import and distribute supplies, replacing the ad hoc measures the Government had previously relied upon. This was soon followed by the creation of a Wheat Executive, which also included representatives of France and Italy, in order to arrange for the pooling of wheat supplies for all three countries and allotment by agreement. Purchases in bulk avoided wasteful competition and restrained prices. By the end of the war the Wheat Executive not only arranged supplies for the Allies but also for many neutral countries. In December 1916 purchasing arrangements moved to a more official basis with the creation of the Ministry of Food. During 1917 the Allies bought wheat from North America, Australia, India and Canada through bulk agreements between Allied Governments rather than individual producers. Argentina was the only notable producer left out of this system of control. The Allies bought produce from Dominion and Allied countries direct from Governments and at fixed prices. The acquisition of bulk supplies from neutral countries was assisted by varying forms of pressure. These included the control of shipping and bunker facilities, the conditional supply of commodities required by the neutral, diplomatic and political pressure and by official trade agreements between Governments and private merchants associations.

¹⁴ CAB 24/27/GT.2101: 'Control of Raw Materials'. Translation of a Note given by Clémentel to Stanley, 23 August 1917.

In the autumn of 1917, at the same time Clémentel was advocating his scheme for the utilisation of Allied economic power to directly influence the war, planning began which could have made his scheme a reality. The shipping crisis, brought on by the unrestricted sinking of merchant vessels, threatened to disrupt the flow of Allied supplies and compelled them to seek a collaborative solution. Crucially the Americans agreed to co-operate with Allied planning. At the Paris Conference of November 1917 it was recognised that the key to Allied economic co-operation was shipping and the Allied Maritime Transport Council (AMTC) was established. It considered the import requirements of the Allies as a whole and the tonnage available to meet them. Its remit was to make the most economical use of tonnage under Allied control, to allot the tonnage between the Allies in the interests of the general war effort and to adjust the requirements of the Allies to bring them within the scope of the available tonnage. To this end it was decided that Allied bodies for food, munitions and raw materials be established along the model of the Wheat Executive.

The aim of closer Allied economic co-operation was not to impose on Allied countries as a whole an overarching economic structure but to link together the mechanisms of national control that already existed. The internationalisation of domestic control of commodities came through the Programme Committees. These committees attempted to co-ordinate along the lines of the Wheat Executive with varying degrees of control. During 1918 some of the committees were grouped for further administrative control under the headings of food and munitions. The Programme Committees covered many staple commodities: wool, cotton, flax, hemp and jute, hides and leather, tobacco, paper, timber, petroleum, coal and coke; and under the Munitions Council (from April): nitrates, aircraft, chemicals, explosives, non-ferrous metals, mechanical transport and steel; and under the Food Council (from

July): cereals, oil seeds, sugar, meats and fats. Some of these committees had executive powers of purchase and applied to the War Purchase and Finance Council for funding. Others had more modest, though no less important, functions in preparing and revising supply programmes in relation to tonnage. Although these committees were not subordinate to the AMTC they were all dependent upon shipping for the implementation of their programmes. In this sense the AMTC became the centre of Allied co-ordination and guided the whole organisation.¹⁵

British reactions to Clémentel's proposals and subsequent planning.

Three objections were raised by Ernest Pollock, controller of the Foreign Trade Department, in response to Clémentel's proposals. Firstly, such a scheme would be regarded by the Central Powers as a confession of failure that the Entente Powers were unable to secure a military victory and would consequently resort to economic threats to secure terms. Secondly, so crude a threat would stiffen the resolve of the Central Powers. It was difficult to submit to a threat as opposed to actual results. German opinion was not yet ready to regard such an economic threat as effective and unanswerable. Finally, it was doubtful whether the United States would co-operate on the basis of the proposal. They would have the strongest objections, on both humanitarian and business grounds, to a trade war after the secession of hostilities. Yet Pollock qualified his objections with the statement that it was continually important to emphasise the Entente economic map as a set-off against the German war map. There was no doubt that the Allied negotiating position would be strengthened greatly if any means were devised to increase the menace of unpleasant post-war

¹⁵ J.A. Salter, *Allied Shipping Control. An Experiment in International Administration* (Oxford, 1921) esp. pp. 89-97, 151-4 and 181-3.

conditions for Germany, or rather to make it clear that these could be only avoided at a price.¹⁶

On 20 September 1917 a meeting took place at the Ministry of Reconstruction comprising representatives from the War Cabinet secretariat, the Treasury, Colonial Office, War Office, Board of Trade, War Trade Intelligence Department and the Department of Information. It was proposed that a committee was needed to bring together and classify the available information bearing on economic conditions in enemy, Allied and neutral countries, with special reference (a) to commercial and financial questions likely to arise in connection with peace negotiations, and (b) to the furnishing of such information as might be required by the Ministry of Reconstruction for the assistance of the Reconstruction Minister or other committees set up by him.¹⁷ On 9 October the Cabinet discussed the question of trade war against Germany with emphasis on the importance of making the best use of the Allies' economic lever against the German territorial lever. The suggestion of a strong committee was raised to consider proposals from the British point of view as a preliminary to any agreement with France and the United States and to assess the effect any action would have on the Empire. Any co-operation with the Allies would naturally limit British freedom in the economic field.¹⁸

As a consequence the Economic Offensive Committee (EOC) was established with Sir Edward Carson as chairman. In an opening memorandum Carson outlined the committee's fields of enquiry. Firstly, it would investigate methods of inflicting economic injury whilst the war was still in progress, e.g. the trade and financial

¹⁶ FO 368/1871/f170481/170481: Minute by Ernest Pollock, 9 October 1917.

The International Parliamentary Commercial Conference (held in Paris) passed a resolution urging Allied Governments, with a view to hastening victory, to profit by the weapons placed at their disposal in the importance of their markets and by their preponderance in the production of raw materials.

'M.P.'s and the Economic War' in the *Daily Mail*, 18 October 1917.

¹⁷ FO 368/1871/f170481/174877: Vaughan Nash to Foreign Office, 2 October 1917.

blockades, the statutory lists and the capture of German established interests in all Allied countries and, more particularly, America. Carson thought the more the Germans realised these methods were being pursued with vigour, the more anxious they would be to finish the war before every vestige of their world-wide commercial and financial organisation had been eliminated. Secondly, the Committee would recommend protective measures to secure Britain and the Allies against post-war German trade monopolies. This meant the safeguarding of specific industries, such as metals and dyes, and the development of Allied resources with respect to any industry or raw material, such as potash, in which the Central Powers had a particularly strong position. Thirdly, the Committee would investigate measures to make use of the economic resources of the Allies for effective bargaining in the peace negotiations and to counteract the possible dangers of an unsatisfactory peace.

In relation to his third point, what Carson envisaged was a system of organisation amongst the Allies covering the raw materials and resources of the world. Enemy nations would be automatically excluded unless they secured concessions which allowed them to participate. What was central for Carson was not necessarily to agree upon the issue of a threat “but to set to work without delay to establish a world control of all the essential supplies both present and prospective.” Merely threatening speculative punitive treatment would be ineffective.¹⁹ What was needed was visible action, and this also applied to planning for post-war fiscal regulations and economic treaties.²⁰

At the first meeting of the EOC Sir Albert Stanley, President of the Board of Trade, favoured control over raw materials for British trade interests. The absence of

¹⁸ CAB 23/4/W.C. 247, 9 October 1917.

¹⁹ The avoidance of an untruth likely to be contradicted before the achievement of a strategic purpose was a basic tactical objective of propaganda. See Harold D. Lasswell, *Propaganda Technique in World War One* (London, 1971) p. 200.

any organisation or control after the war would lead to enormous inflation, price fluctuations and economic instability. This aspect of control had been anticipated by the Service Supply Departments earlier in the war. They predicted that reserve stocks of raw materials in all countries would be low and in the Central Powers practically exhausted. World production would not have increased sufficiently to meet the abnormal demand to replace these stocks and world shipping would be insufficient to supply world demand in the immediate post-war period. The purchase or control of supplies was considered vital in providing the Allies with a head-start and to check any endeavour by the enemy. Home raw materials should be earmarked for the Allies' own use, German firms should be prevented from purchasing and holding stocks before Allied needs were met and rationing schemes should be continued for neutrals.²¹

Carson expanded on his theme of the control of raw materials in a further memorandum. He recognised that those able to secure access to raw materials would have enormous competitive advantage over their rivals by being the first to set the wheels of industry and exchange in motion. Although shortages were acute in Germany, she had industrial and manufacturing plant intact necessary to commence work, and a considerable volume of merchant shipping which had remained untouched in port during the war. Should Germany be allowed to re-establish her industry and trade on a favourable footing it would be at the expense of the weaker Allies, preventing their full recovery. In order to prevent this, raw materials could be organised to supply the Allies whilst crippling German export (but not necessarily domestic) trade. The use of bunker facilities and shipping could further strengthen this

²⁰ CAB 27/15/EOC.1: 'Committee on the Economic Offensive' by Carson, 17 October 1917.

²¹ MUN 5/113/600/20: 'Memorandum on control of certain raw-materials by the Allied Governments after the war' by the War Office, 1 June 1916. Later in the year there was a scheme proposed for the appointment of a controller of raw-materials. See MUN 4/1288.

control. "The knowledge in Germany that such an organisation was in hand may be an important, even decisive, factor in shortening the war and moderating German claims."²² Carson thought it logical and natural that existing Allied controls over certain raw materials and foodstuffs be adapted to meet post-war conditions.

The necessity for an alternative economic strategy and the dangers of making a direct threat to Germany.

At the end of 1917, with the Allied military offensive on the Western Front bogged down in the mud of Passchendaele, it was becoming obvious to some that alternative methods had to be found for securing victory. Henry Page Croft presented a memorandum to the Cabinet outlining a plan in which Germany, for every six months she continued the war, would be ostracised from entry into world markets for a year. He claimed, "the result would be complete victory instead of a stalemate peace."²³ Control over economic resources was a way of achieving complete victory by economic rather than military means. Page Croft found it hard to understand how, when the lives of soldiers were sacrificed without thought on the Western Front, many politicians seemed reluctant to press for the development of the economic weapon as one of war, not just propaganda.²⁴

Such debate took place in the press as well as in Whitehall. Professor L.T. Hobhouse, writing in *The Guardian*, advocated a strategy similar to that proposed by Carson. He believed that British statesmen should make it clear to Germany that if

²² CAB 24/4/G-175. 'Control of Raw Materials' by Carson, 16 November 1917.

²³ CAB 21/108/GT.2113: 21 September 1917. He went on "When men die like flies it is inconceivable that any financial interest or sentimental idea should prevent the adoption of such a policy forthwith."

²⁴ Croft, a conservative backbencher, had left the Commons for France in November 1914 with the 1st Territorial Battalion of the Hertfordshire Regiment. In 1916 he commanded the 68th Infantry Brigade and saw action at the Somme.

they agreed to a reasonable settlement and gave good grounds for believing that she intended to live within the comity of nations in future, she could share in the allocations of the world's materials. If Germany gave no such assurance she would be confronted with a policy of economic exclusiveness. He concluded that, "allied statesmen had a weapon powerful enough, if properly used, to blow the enemy's position away."²⁵

Yet it was the qualification 'if properly used' that indicated a potential cause for concern. There was a real fear that deliberately confronting Germany with an economic ultimatum might push the enemy to greater military efforts because they would have nothing to lose by fighting on.²⁶ The Economic Offensive Committee was already acquainted with views of this nature.²⁷ Lloyd George had never been favourable to the Paris Resolutions because he believed they helped to prolong the war by showing Germany that the Allies wished to 'starve her out' after the war.²⁸ Norman Angell complained that the Paris Resolutions, combined with the perpetual talk of the destruction of Prussian militarism, was enabling the enemy to create a morale founded on the impression of fighting against national extinction.²⁹ Alfred Zimmermann, from the Ministry of Reconstruction, thought that any statement regarding

²⁵ 'Trade and the War. The Economic Weapon against Germany' by Hobhouse in *The Manchester Guardian*, 2 November 1917.

²⁶ Such a view was expressed by the Imperial War Cabinet. See CAB 32/1/IWC (1917): 26 April 1917.

²⁷ The President of a German Textile Association in an address to his members feared a compromise peace. He thought that England and the Allies would endeavour to realise to the greatest extent the programme of the Paris Conference, and in the form of a masked economical war, try to do further harm to Germany. "The temptation is great, for the possibility to do us harm *continually* is given and it is worthy of all our attention to acknowledge the possibility of this threat in our industrial circles and to oppose it firmly." CAB 27/16/EOC.38: November 1917.

²⁸ W.A.S. Hewins, *The Apologia of an Imperialist*, vol. 2 (London, 1929) p. 133. Ironically, Lloyd George did 'starve Germany out' during the Armistice, without any need for the Paris Resolutions.

²⁹ See Arthur Link (ed.), *The Papers of Woodrow Wilson* (Princeton, New Jersey, 1966-94) vol. 43, p. 401. Proposal by Norman Angell, August 1917.

On 1 July 1916 the *Hamburger Nachrichten* reported: "the attempt is now being made to throttle Germany by a ruthless trade war after the war. The recognition of this fact must strengthen our will to victory. Our victorious arms must enable us to make peace on such terms as will frustrate our enemies' evil intentions against the German people and its well-being." Quoted in Harold Storey, *The Paris Conference and Trade After the War* (London, 1916) p. 32.

the Allied economic stranglehold should take the form of a warning to the German people. It could warn of the seriousness into which their Government had placed them by antagonising much of the civilised world and also stress the hopelessness of their position against such a concentration of economic power. Such a statement should be accompanied by a reiteration of Allied peace terms and a declaration that it had never been the policy of Britain to crush or dismember the German people, or to hamper their economic development.³⁰ Clémentel believed that any statement to the German people should be framed as an offer, to join a 'society of nations', rather than as a threat.³¹

Carson and Lord Robert Cecil both emphasised that the best method would be to take measures to secure raw materials for Britain and the Allies and thus automatically reduce the supplies available to Germany, rather than attempting any form of direct threat. If measures for mutual help amongst the Allies became known it would have as much, if not more, effect on German opinion as any direct threat.³² There was a clear line of distinction drawn between keeping a share of raw materials from the enemy, of which a large proportion would be needed by the Allies, and depriving them of a share of materials of which there was likely to be a surplus after Allied requirements had been satisfied. The appropriation and equitable division of materials would in itself act as an economic offensive.³³

Yet if there was to be no direct threat, the indirect warnings could not be clearer. Cecil stated in a Reuters interview that "the Germans fully realised the immense power of the economic offensive." The increasing danger of a world

³⁰ Zimmern MSS 79: Zimmern to RSG, 21 June 1917. Zimmern later served in the Political Intelligence Department of the Foreign Office, 1918-1919.

³¹ CAB 27/15/EOC.3: Clémentel on the economic offensive, 14 October 1917. However if the Germans failed to accept this 'offer' on Allied terms the war would be followed by a period of economic blockade, to last one year for every month's delay.

³² CAB 27/15/EOC 6th Meeting, 9 November 1917.

shortage of essential materials was bound to increase as the war went on. Opponents of Germany commanded the sources of a vast proportion of those materials and after the war would first have to consider their own needs, followed by the neutrals and finally, if anything was left, the enemy. He ended with a overtly threatening statement: "I see nothing but greater economic ruin for them [the Central Powers] after the war the longer it lasts."³⁴

The effect of threatened Allied economic retribution in Germany.

Members of the Political Intelligence Department were convinced that the subject of an economic boycott dominated the attention of Germans.³⁵ They were undoubtedly influenced in this thinking by monthly economic intelligence reports compiled by Max Muller on the economic situation in Germany and Austria-Hungary.³⁶ It was generally recognised that the commercial transactions of the Central Empires fell into four categories: the purchase of supplies for immediate delivery (despite the blockade); speculative purchases to be re-sold to neutrals; the purchase of stocks to be held until after the war and restrictive purchases intended to limit the supplies of the Allies. British officials believed that the Prussians were already efficiently preparing a general programme for the provisioning of Germany after the war and the immediate

³³ CAB 27/16/EOC.50. Memorandum for the EOC by Hewins, 19 December 1917.

³⁴ *The Morning Post*, 3 November 1917.

³⁵ See CAB 21/108: Tyrrell to Hankey, 21 May 1918 and Headlam-Morley MSS HDLM 35: Headlam-Morley to Philip Kerr, 9 January 1918.

³⁶ Muller, a former British consul in Budapest, was an intelligence official who assembled reports for the Foreign Office from the censored newspaper press, the letters of dead German soldiers and private intelligence. His assertions from mid-1917 onwards that German commercial interests were increasingly concerned with the post-war commercial situation coincided with Ludendorff's decision at the end of 1916 to lift restrictions on the discussion of German war aims in the press and official circles. What British intelligence sources could have been witnessing was a general growth in debate over the post-war situation by German commercial interests, after a period of suppression, rather than a sudden increase in concern.

revival of the export trade.³⁷ They noted circulars dispatched in January 1916 from the Foreign Ministry in Berlin to German consuls concerning the co-operation of industrial and commercial forces in Germany and the huge export societies which were preparing the outgoing cargo of ships which would fetch from overseas the raw material necessary for an economic revival. Provision trusts were being formed to discover a financial means to prevent a drop in the German exchange at the time when exports reduced through lack of raw materials would be unable to counterbalance sufficiently the huge purchases which would be indispensable to the provisioning of Germany.³⁸ At the Paris Economic Conference, the Allies passed an unpublished Resolution relating to the collection and circulation of information regarding stocks of raw materials and manufactured articles collected by the enemy for use after the war.³⁹

Soon after the outbreak of war Walther Rathenau had been employed to establish a Raw Materials Department (*Kriegsrohstoffabteilung*) by the Ministry of War after he warned that the war would last longer than Germany's supplies of essential raw materials. Instead of the military taking possession of materials they were left in the hands of individual commercial corporations (often owned or controlled by the largest companies requiring the raw materials) and the Raw

³⁷ See FO 368/1530/f125845: The British consulate in Vigo reported on 28 June 1916 that orders were being solicited so that goods might be packed and ready for shipment as soon as hostilities ended. "This seems to prove up to the hilt that the Germans are bent on their 'dumping' methods directly their ships are allowed to put at sea". The British consulate in Rotterdam reported on 27 June 1916 that German firms were attempting to obtain neutral representatives to conduct business for them after the war in the UK and Allied countries. German agents were accumulating merchandise, especially raw materials, in the Dutch East Indies and South America and other neutrals for shipment to Germany after the war. It was thought many Dutch and neutral firms would return to their former German suppliers after the war.

³⁸ FO 902/2: Secret Weekly Bulletin of Trade Information, 18-24 March 1916; FO 382/1129/f1814/191280: 'German arrangements for financing cotton shipments post-war' by the WTID, 28 September 1916; Steel-Maitland MSS GD 193/307: 'Purchases made by the Central Powers and the Allies' by MI6B, September 1916. There were reports that wool purchased in South America was being stored on interned German merchant vessels ready for immediate transport home. See MUN 5/113/600/20: 'Memorandum on control of certain raw-materials by the Allied Governments after the war' by the War Office, 1 June 1916.

³⁹ Bonar Law MSS BL 191/6: 'Supplementary Note on the Paris Economic Conference', 14 July 1916. It was thought unwise to publish the Resolution and warn the enemy. It was also thought neutrals might resent inquiries by Allied agents into their post-war transactions.

Materials Department regulated their disposal. Scarce raw materials were only distributed to companies which produced goods for the war effort.⁴⁰ The organisation of the Raw Materials Department reflected Rathenau's own philosophy of industrial reorganisation as chairman of AEG, one of Germany's largest cartels. Since the purchasing, storing and distribution of materials was largely left in semi-private hands there were hopes to continue this machinery after the war for the bulk purchasing of materials from foreign markets for the benefit of German industry as a whole. The aim would be to regulate prices through enormous purchasing power and secure cheaper raw materials for German industry.⁴¹

In August 1916 such a central authority was created with the Office of Imperial Commissariat for the Transition from War to Peace Economy. The Commissar dealt with the problem of tonnage, distribution of home and foreign raw materials, the employment of demobilised workmen and the question of rationing. In October 1917 this department was transferred to a separate central authority, the newly established Imperial Ministry of Economics, which handled all matters connected with social and economic policy previously dealt with by the Ministry of the Interior.⁴² However, the longer the war continued and the more the blockade

⁴⁰ See Gerald D. Feldman, *Army, Industry and Labor in Germany, 1914-1918* (reprint, Providence, R.I., 1992) pp. 45-52. *Board of Trade Journal*, 100 (1918) p. 193. Holger H. Herwig, *The First World War. Germany and Austria-Hungary, 1914-1918* (London, 1997) pp. 255-7.

⁴¹ T 172/446: 'Finance and Post-Bellum Measures [in Germany]' by Rumbold (Berne), 28 September 1917.

Naturally whilst big industrialists found this a favourable prospect, mercantile interests were strongly opposed to the continuance of state controls which eliminated competition through central purchasing. Mistrust of the German Government was evident at a meeting of the *Hansabund* (an important commercial organisation) in which the following resolutions were passed: 1) state interference must be limited during the transition period and completely eliminated after the war; 2) the closing down and amalgamation of factories must be stopped; 3) former freedom of trade must be restored as soon as possible after the war and trade and industry interests consulted on all questions of supply, distribution, raw materials and foreign exchange; 4) the principle of monopolies must be abandoned since "free economic activity in industry and trade is the economic guarantee for the financial capacity of the German people." Churchill MSS CHAR 27/13: 'Foreign Office Reports on the Economic Situation in Germany and Austria-Hungary' by Max Muller, 21 October 1917.

⁴² See Richard Bessel, *Germany after the First World War* (Oxford, 1993) pp. 50-52. Bessel comments that planning suffered from a lack of clear direction and from uncertainties as to how or when the war would end.

intensified through continual refinements, the worse Germany's position grew. With a lack of raw materials it was necessary to use all stocks for home consumption. Whilst the shortages could be managed and substitutes used so as not to crucially effect German fighting capacity, they could not afford the luxury of maintaining large stores of manufactured articles ready for 'dumping' after the declaration of peace.⁴³

With the entry of the United States into the war Germany became increasingly apprehensive over the problem of economic reconstruction (*übergangswirtschaft*). The United States inflicted a serious blow to Germany's plans by seizing raw materials accumulated in America intended to supply German industry after the war.⁴⁴ It was acknowledged that if Germany was deprived of her colonial possessions after the war and Britain and France closed their colonies to foreign trade, as outlined in the Paris Resolutions, Germany's position would be intolerable.⁴⁵ The Paris Conference, followed by the entry into the war of Italy⁴⁶, the United States and many of the South American Republics, brought economic matters into the foreground.⁴⁷

⁴³ See Runciman MSS WR 144: Paget (Copenhagen) to Grey, 23 October 1916 and FO 368/1530/f125845/150887: British Consulate General (Philadelphia) to Foreign Office, 18 July 1916.

⁴⁴ See CAB 24/10/GT.411: 'Post-war commercial policy in the light of recent events' by the Reconstruction Committee, 11 April 1917 and Steel-Maitland MSS GD 193/73/7/3: 'German Post-War Economic Policy - III The bearing of American intervention upon German post-war economic plans' by the Reconstruction Committee, April 1917.

⁴⁵ Passage from an article in *Nord Deutsche Allgemeine Zeitung*, 5 August 1917.

⁴⁶ FO 382/1589/f60138/60138: The British embassy in Rome reported to Balfour that the growing needs of Italy and the difficulties of transport and obtaining supplies had very largely settled automatically the question of accumulation of stocks in Italy for enemy account. Requisitioning by the Italian Government had deterred enemy agents from attempting to store large quantities of goods until the end of the war, 14 March 1917.

⁴⁷ The *Hamburger Nachrichten* commented in relation to Brazil: "Her entrance into the war from a military point of view is of no interest one way or the other... But from another point of view the fact of her taking a hand is not without significance. For whether it is a question of Guatemala, Liberia, Honduras, or Brazil, each case accentuates that commercial isolation into which Germany is being gradually pushed and which it is the principal object of her enemies to achieve." CAB 24/20/GT.1447: Appendix I - German Opinion of Trade War.

Retired infantry general Wilhelm von Blume commented on 2 August 1918: "We must face the fact that since the beginning of last year the United States of North America and, following in their wake, China, Panama, Cuba, Liberia, Siam, Guatemala and Costa Rica have joined themselves to the coalition of our enemies; in addition Brazil and eight other South American states... have declared their hostility towards us by breaking off diplomatic relations. This means that, out of 1,565 million who currently inhabit the earth, more than 1,000 million stand against us - compared with 170 million of our own four-nation alliance." Prince Max von Baden, soon to become Chancellor, noted the

The Reconstruction Committee declared that the supply of raw materials was no longer one of many problems but was *the* problem of Germany's immediate economic future. The whole fabric of recuperation, the re-establishment of Germany's export trade and of her foreign exchanges rested upon the replenishment of her exhausted stores of raw materials.⁴⁸ Reports of large-scale storage by Germany of commodities the Allies wished to control were dismissed by the Board of Trade. It was considered natural that the Germans were looking for raw materials in neutral countries given the immense shortage of raw materials. Yet they were still small amounts in comparison with pre-war German imports of materials. There was nothing to indicate that the purchases would appreciably lessen the power of the Allies if they decided to use the weapon of economic pressure or materially interfere with the Allies' ability to meet their own requirements.⁴⁹ The German Government faced the serious problem of an exhausted population and having to attempt to restart manufacturing before dangerous revolutionary action could ensue. With the free flow of food and raw materials into the country and free markets for German produce, the energy of the people could be directed towards the restoration of commerce and industry and away from political considerations. Yet to achieve this there had to be free and favourable commercial intercourse with the rest of the world. The formula of *Mitteleuropa* would not be sufficient to satisfy German trade.⁵⁰

"complete helplessness against the growing hostility towards us in the neutral countries." Quoted in Gordon Brook-Shepherd, *November 1918: The Last Act of the Great War*, p. 29.

⁴⁸ Zimmer MSS 79: 'German Post-War Economic Policy' for the Reconstruction Committee, revised to May 1917.

⁴⁹ CAB 21/110: 'Storage of goods for enemy account in neutral countries' by the War Trade Intelligence Department, 21 August 1918 and comments from the President of the Board of Trade, 11 September 1918.

⁵⁰ Steel-Maitland MSS GD 193/310/5: 'Memorandum on German War Aims' by JWH (Intelligence Bureau), 15 July 1917.

Mitteleuropa as a factor in planning for economic warfare

Investigations by the Reconstruction Committee into post-war German economic policy concluded that Germany must aim at emerging from the war as a self-sufficient empire, independent of sea communications.⁵¹ It was thought that plans for a Zollverein to bring the central states of Europe and the Balkans under the control of the Central Powers by commercial union would be in place by the time peace negotiations were initiated and would constitute a *fait accompli* for Germany. It was recognised there was reluctance on the part of Austria, Bulgaria and Turkey for a scheme which necessitated parting with some of their sovereign fiscal rights. Nevertheless a reconstruction policy was being formed on the basis of autonomous tariffs, mutual preferences, alteration of most-favoured-nation clauses and a new series of commercial treaties. Nothing had been done by the Allies, notwithstanding the Paris Resolutions, to counter these preparations which would leave Germany in a strong position should the Central Powers resolve upon an early termination of the war.⁵²

During the war, notions of *Mitteleuropa* were revived and rejuvenated in Germany to provide a solution to lack of access to foreign markets and sources of raw materials. The notion of creating a Central-Eastern European economic bloc dominated by Germany was not new. The concept of *Drang nach Osten* had been prevalent in pre-war German thinking.⁵³ Behind Caprivi's trade policies of the early 1890s was the desire for closer tariff links in Central Europe to counter competition

⁵¹ CAB 21/73: 'German Post-War Economic Policy' by the Reconstruction Committee, January 1917.

⁵² FBI MSS 200/F/3/D1/2/2: Nugent to Lloyd George, 15 January 1917 and FO 371/3102/116120: Townley (The Hague) on economic relations between the Central Powers, 11 June 1917.

⁵³ The concept had many variations and detailed analysis can be found in Henry Cord Meyer, *Mitteleuropa. In German Thought and Action, 1815-1945* (The Hague, 1955) and Fritz Fischer, *War of Illusions* (London, 1975).

from the British Empire and the United States.⁵⁴ Nevertheless, by the turn of the century German economic expansion was primarily focused along global lines and dependent on the sea. Interest in a Central European organisation remained on political and cultural lines but Germany was economically being compelled outwards. Although Austria-Hungary and Russia were important providers of primary produce, the bulk of German raw materials came from outside Europe.⁵⁵ The imperialist ambitions of Wilhelm II and Tirpitz's naval policy were political and military manifestations of this economic engagement with the wider world. Yet as German imperial ambitions were checked by the established powers of Britain and France, for instance in Morocco in 1911, some considered it necessary to use *Mitteleuropa* as a safe base from which Germany could project her world power.⁵⁶ World policy and continental policy were interdependent. *Mitteleuropa* could become a fourth great economic empire, with Germany at its head, alongside Russia, the United States and the British Empire.⁵⁷

Renewed discussion of *Mitteleuropa* during the war was certainly a reaction to the blockade, forcing the Central Powers to turn in on themselves and solve their problems of supply internally.⁵⁸ What was envisaged by nationalists was a huge customs union centred on the Hohenzollern and Habsburg empires, embracing Turkey and the Balkan states. Bethmann Hollweg's ambitious September Programme of 1914 envisaged adding Belgium, Holland, Denmark, Poland and perhaps Italy, Sweden and Norway to a Central European association, to be achieved through common customs

⁵⁴ Fritz Fischer, *War of Illusions*, pp. 6-7.

⁵⁵ See Henry Cord Meyer, 'German Economic Relations with South-eastern Europe, 1870-1914,' *American Historical Review*, 57 (1951-2) pp. 77-90.

⁵⁶ Such a policy was recognised by the Allied press during the war. Germany was a great industrial state and Austria a developing industrial state. Bulgaria was a source of agricultural supply and Asiatic Turkey was a region from which raw materials could be drawn. Combined they could form an empire within which trade was free, but which also served as a consolidated base for operations against the trade of the outside world. 'Days of Preparation' in *The Globe*, 11 February 1916.

⁵⁷ Fischer, *War of Illusions*, pp. 35-6 and 270-1.

treaties.⁵⁹ Yet to its advocates, *Mitteleuropa* was not merely intended to be a combination of resources and policies but a creative and productive economic organism greater than the sum of its individual parts.⁶⁰

However, the former Colonial Secretary Dernburg believed the 'cry' of 'Central Europe' was a mistake and that Germany could not continue to exist without foreign trade.⁶¹ He was joined in this belief by Reinhold von Sydow, the Prussian Minister of Commerce, who declared to the Prussian Diet that Germany needed economic and industrial traffic with her Allies but also with neutrals and states which were at present hostile. "We shall not in future be able to do without the world markets for our industry and our trade."⁶²

Whilst German business undoubtedly wished to be left free in the economic exploitation of *Mitteleuropa* it was recognised that the Near East of Europe and Asia Minor could not provide adequate compensation for the loss of overseas markets (especially the British Empire). The purchasing power of the countries concerned was limited and their considerably lower population placed limits on importing capacities. Moreover it was politically undesirable for German manufacturers to intensively expand their trade at the expense of Austrian industry.⁶³ More importantly this region could not match overseas markets for the import of goods.⁶⁴ In 1913, *Mitteleuropa* (Austria-Hungary, Romania, Bulgaria, Serbia, Greece and Turkey) provided less than

⁵⁸ Henry Cord Meyer, *Mitteleuropa. In German Thought and Action, 1815-1945*, p. 116.

⁵⁹ Fritz Fischer, *Germany's Aims in the First World War* (London, 1967) pp. 103-5.

⁶⁰ Meyer, *Mitteleuropa. In German Thought and Action, 1815-1945*, p. 163.

⁶¹ CAB 27/16/EDDC.52: The Deutscher Wirtschaft Verband für Süd und Mittel-Amerika, 14 November 1916.

⁶² 'Central Europe. A Warning' in *The Times*, 25 February 1916.

⁶³ A congress of Hungarian manufacturers expressed opposition to the idea of a German/Austro-Hungarian economic union. It was thought Hungarian industry would be sacrificed as Germany sought new outlets to replace lost markets worth £200 million. *Daily Telegraph*, 28 February 1916.

⁶⁴ Runciman MSS WR 143: Translation of an article from the *Neue Hamburgische Börsen Halle* entitled 'Considerations concerning the future of German export by sea - An enquiry', 9 April 1916.

1% of Germany's supply of wool, cotton and iron ores and could not provide any rubber or copper. One German commentator noted:

The most important thing is, and remains, that Germany must keep a free hand, and be put in a position to carry through far-reaching connections with the business of the whole world. She must not hang 'Mitteleuropa', like a weight of lead, to her feet, to retard her progress in dealing with the outer world; on the contrary, she must *discover a method which will make possible an economic rapprochement with those countries, without prejudice to her economic position in the world as a whole.*⁶⁵

Thus it appeared from their own intelligence reports that there was scope for the British to attempt to influence Germany over her post-war commercial position using raw materials and access to foreign overseas markets as bait. Muller thought it highly probable that the realisation of the approaching exhaustion of stocks of essential raw materials and of the enormous difficulty of replenishing them after the war was at the bottom of the growing desire in Germany for a peace which would allow the renewal of normal belligerent relations.⁶⁶ In December 1916 there came an offer by the Central Powers to negotiate peace. The terms on which Germany was willing to enter negotiations included treaties to guarantee the freedom of the seas and the renunciation of all agreements between the Allies which might prevent the resumption of normal economic relations after the war. This was undoubtedly a response to the actions taken by the Allies at the Paris Economic Conference earlier in the year. The Paris Resolutions were a blow to the German economists who had initially rejected plans for a mid-European economic organisation in favour of retaining most-favoured-nation status with the world at large. This status was lost to

⁶⁵ Dr von Tyska writing in the *Europäische Staatsund Wirtschaftszeitung*, 20 April 1916. Quoted in Zimmer MSS 79: 'German Post-War Economic Policy' by the Reconstruction Committee, revised to May 1917.

⁶⁶ Churchill MSS CHAR 27/13: 'Foreign Office Reports on the Economic Situation in Germany and Austria-Hungary' 23 July 1917.

Germany at the Paris Conference and these new economic pressures intensified planning.⁶⁷

The Germans also wanted “restitution of colonies in the form of an agreement which would give Germany colonies adequate for her population and economic interest”, which suggested an enlarged colonial empire from which Germany could draw on raw materials unhindered.⁶⁸ It was thought essential that Germany should be able to obtain raw materials for her industries from her own resources. So long as Germany was dependent upon British commercial goodwill she was at the latter’s mercy. A great deal was talked of the ‘world syndicate’ formed against Germany. The only way Germany could secure herself against this peril was by having a sufficiently large empire to make herself absolutely independent of any economic boycott.⁶⁹

Despite the categorical rejection of the peace offer by the Allies, Germany continued negotiations in early 1917 through the mediation of President Wilson. Bernstorff, the German ambassador to the United States, repeated to Colonel House that the terms under which Germany would be prepared to enter peace negotiations included the abandonment of all economic agreements and measures which would form an obstacle to normal commerce and intercourse after the war and their replacement by reasonable treaties of commerce.⁷⁰ Although the hope of achieving a military victory was still strong, especially with the imminent declaration of unrestricted submarine warfare, concern over an economic settlement was a

⁶⁷ Meyer, *Mitteleuropa. In German Thought and Action, 1815-1945*, p. 240.

Resolution B.II stated that most-favoured-nation treatment would be withheld for a number of years after the cession of hostilities. During this time the Allies would undertake to assure for each other compensatory outlets for trade resulting from such action. Cd. 8271, *Recommendations of the Economic Conference of the Allies* (1916).

⁶⁸ See Hans Gatzke, *Germany’s Drive to the West: A Study of Germany’s Western War Aims during the First World War* 2nd edition. (Baltimore, 1966) pp. 136-144.

⁶⁹ CO 532/11644: ‘Memorandum on a German Scheme for an African Empire’ by the Intelligence Bureau of the Department of Intelligence, March 1918. Such an empire would encompass the Belgian and French Congo, Nigeria, Uganda, Zanzibar and German East Africa, comprising sea to sea territory across the central part of the Continent.

recognition that for Germany to win the military war only to lose an economic peace was self-defeating. In July 1917 the Reichstag presented a Peace Resolution in which they stated only an economic peace could prepare the ground for friendly intercourse between the nations. The Reichstag rejected all plans which aimed at economic isolation and hostility amongst nations after the war and the freedom of the seas was also to be guaranteed.

The Peace Resolution expressed the fear that the armed entente against Germany would evolve into a hostile economic alliance. Albert Ballin, the German shipping magnate, told the Emperor that the markets of the world would be closed to Germany for every year of the post-war period that the war was continued in months. He ended by stating that the war could no longer be tolerated by the mercantile classes in Germany.⁷¹

Dernburg, the former Colonial Secretary, stated in an article in *Neue Freie Presse* that the threat of boycott must weigh heavy in the peace scales. Germany's acquisitions in the East could not compensate for losses of raw materials in one-third of the globe or markets on which pre-war prosperity was based. Germany was worried about the effect of measures such as the Non-Ferrous Metal Bill, the Anglo-Australian Zinc agreement, export duties on palm kernels, the Indian jute monopoly, and British control of Egyptian cotton and Australian and South African wool.⁷² Dr Helfferich, the federal Minister of Finance, declared in a speech on 9 April 1918:

We may maintain and safeguard our frontiers, but *if the peace does not restore to us what the British economic war has destroyed, if it does not recover for us free play for our work and enterprise in the outer world...we have lost the war and with it our future.* Then we have

⁷⁰ See Link (ed.), *The Papers of Woodrow Wilson*, vol. 41, p. 81. Bernstorff to House, 31 January 1917.

⁷¹ FO 371/2941/230377: Walter Page to Cecil, paraphrase of a report received by the American legation at Copenhagen concerning a session of the Reichstag, 29 November 1917.

⁷² Churchill CHAR 27/56: 'Foreign Office Reports on the Economic Situation in Germany and Austria-Hungary', 23 June and 27 August 1918.

played for our stakes and lost them; we shall be suffocated; with our population diminished and our standard of life reduced.⁷³

It was inconceivable that Germany would conclude a negotiated peace which did not secure the freedom of the seas and access to markets and raw materials.

The trade war after the war - *which is most dreaded* - is to be avoided by negotiation; *Belgium and occupied French territory being a pawn, not only in all matters relating to the colonies, but in all guarantees required against commercial differentiation by tariffs or harbour dues to Germany's advantage.*⁷⁴

It was feared in Germany that even if a peace to protect her from active economic discrimination was concluded, she would still find the Allies had already secured access to the world's raw materials and Germany would be unable to replenish her depleted stocks.⁷⁵ They called for the world distribution of raw materials for the benefit of the whole of humanity. At a peace conference the Germans would hope to secure an international instrument, backed by neutrals, outlining the conditions under which economic relations would continue, hopefully rendering impossible the policy of the Paris Conference.⁷⁶

Conclusion

The PID used such intelligence reports in their own memoranda to advocate the strengthening, with every means at Britain's disposal, of the machinery of economic

⁷³ Quoted in FO 371/4357/174: 'Memorandum on Recent German Pronouncements on Economic Policy' by the PID, 14 June 1918 [italics in original].

⁷⁴ CAB 24/63/G.T.5615: 'Memorandum on German War Aims' 5 September 1918 [italics in original].

⁷⁵ FO 371/2941/191285: Sir W. Townley (Hague) to Balfour, 'Review of the situation in Germany today', 1 October 1917.

Leo Chiozza Money predicted that at the conclusion of the war the antagonism which German aggression had aroused would help to deny her trade and shipping. *Daily Chronicle*, 10 August 1914.

⁷⁶ On 9 June 1916 *The Times* stated that "Germany has discovered that she is not self-sufficient, that her fiscal system is in ruins, that no 'Central-European' consolidation and expansion can restore her fortunes, and that she has been cut off from the world trade that she must have. It is not for her, but for the Allies to determine whether the world's 'need of Germany' is such that she can quietly recover the position in which...she has been the economic dictator of Europe."

control in the hands of the Allies and the British Empire. The Germans were believed to rate highly the potency of the economic weapon. The economic issue was the best leverage at the disposal of the Allies for influencing German opinion, for the restoration of domestic comfort and national prosperity rested upon the economic settlement. Any suspicion that there existed reluctance on the Allied side to perfect their machinery of joint economic organisation or to adopt measures of purchase, control and unification would only act as encouragement to the enemy. The confusion that existed amongst the German public as to the economic policy of the Allies, enabled the military party to stir up lagging support. They believed that if it were made perfectly clear that the Allies intended to use the economic weapon to its fullest extent in order to achieve their declared purposes, but nothing more, it would have more of a disintegrating effect upon German opinion than any statement so far issued.⁷⁷ Planning in Britain to exploit this potential weapon had been proceeding since the autumn of 1917. Throughout 1918 British officials worked to reconcile the aims of the French, the hesitancy of the Americans, the interests of the Dominions and concern for the neutrals. The task of harmonising these discordant elements and creating a defined policy, capable of having an impact on German opinion, was an intricate task for the British.

⁷⁷ FO 371/4357/174: 'Memorandum on Recent Pronouncements on Economic Policy' by the PID. 14 June 1918.

VII

The politics of control: Reconciling the interests of America, the Empire and the neutrals.

By 1918 the question of the strategic use of raw materials was under active consideration across Whitehall by the Colonial Office, the Economic Offensive Committee, the Ministry of Reconstruction and the Board of Trade. The Foreign Office and the Ministry of Munitions also had an interest in the subject but the Colonial Office and the Reconstruction Ministry were primarily concerned, the former with imperial aspects and the latter with the domestic aspect of the question.

Christopher Addison, the Minister for Reconstruction, thought that the business problem of how to obtain control of raw materials must be separated from the political problem of how the supplies should be allocated once obtained.¹ He suggested the formation of a Materials Supply Committee. It would firstly consider the extent of supplies of raw materials required by British manufacturers for restoring and redeveloping trade after the war and secondly, the extent to which such supplies might be obtained from Britain, the Empire, Allied or neutral countries and the methods of securing and allocating them.² The Ministry of Reconstruction set up a Central Committee on Raw Materials, under the chairmanship of Sir Clarendon Hyde, to consider these terms. In true bureaucratic style after a respectable period the Committee gave birth to a host of sub-committees on which experts dealt with

¹ CO 532/114/1991: 8th meeting of the Committee on Trade Relations of the United Kingdom within the Empire, 2 January 1918.

² CAB 24/27/G.T.2170: Memorandum by Addison, 28 September 1917.

individual materials or groups of materials separately.³ However it was considered manifest that the problem of securing and handling supplies of raw materials for meeting the needs of the Britain required the co-operation of the Dominions and the United States, along with the Allies.⁴

American thinking over the utilisation of economic organisation.

The intense hostility felt in the United States in 1916 towards the Paris Resolutions did not abate with her entry into the war. Americans, from the President down to the general public considered them not only politically and economically but also morally distasteful. The prospect of an economic offensive was considered illiberal.⁵

Recommendation III in Wilson's 'Bases of Peace' provided for: "Mutual guarantee against such economic warfare as would in effect constitute an effort to throttle the industrial life of a nation or shut it off from equal opportunities of trade with the rest of the world."⁶ This later became the third of Wilson's Fourteen Points announced on 8 January 1918. He endorsed the 'Open Door' policy calling for:

³ The following main groups of material were brought under review: Non-ferrous materials (aluminium, antimony, copper, lead, nickel, spelter, zinc and tin), Ferro-Alloys (tungsten, molybdenum, chromium, vanadium), iron and steel, leather, wool, cotton and timber.

⁴ The general terms of reference to the Committee and Sub-Committee's were to consider and report upon 1) the nature and amount of the supplies of materials and foodstuffs which would be required by the United Kingdom during the period which would elapse between the termination of the war and the restoration of a normal condition of trade, and the steps which should be taken to procure these supplies having regard to a) the probable requirements of India, the Dominions and Crown Colonies for such supplies, b) the probable requirements of belligerents and neutrals for such supplies, c) the sources from which, and the conditions under which, such supplies might be obtained and transported, and in particular, the extent to which they might be obtained through the United Kingdom or within the Empire, or from Allied or Neutral countries; 2) To consider also whether any measure of control will require to be exercised, and the extent and character of such control. Cd. 9231, *Report on the work of the Ministry of Reconstruction for the period ending 31 December, 1918* (1919) pp. 11-12.

⁵ However, the Wilson administration was not unmoved by economic factors. Hewins reported that the word at the Carlton Club preceding the entry of the United States into the war was that the Americans saw two great economic combinations being formed from which they would be shut out. Hewins, *The Apologia of an Imperialist* (London, 1929) vol. 2, p. 117.

⁶ Arthur Link (ed.), *The Papers of Woodrow Wilson* (Princeton, New Jersey, 1966-94) vol. 41, p. 160. Lansing to Wilson, 8 February 1917. Lansing recognised that such a proposal was aimed against the Paris Resolutions.

The removal so far as possible of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance...We do not wish to fight her [Germany] either with arms or hostile arrangements of trade, if she is willing to associate herself with us and the other peace-loving nations of the world in covenants of justice and law and fair dealing.

He recognised that Europe was America's best customer and that any preferential arrangements would hamper German recovery and encourage economic dislocation. Unstable conditions in Europe threatened the United States' export trade. He consistently advocated the open door of non-discrimination as the economic basis of peace. Lansing in his letter to the Pope of 27 August 1917 had condemned "the establishment of selfish and exclusive economic leagues."

Ernest Pollock thought that American adhesion was an essential yet also a difficult part of the problem of planning economic action.

The conception of favourable trade relations as dependent upon the mutual good behaviour of nations and as a means of dealing with bad behaviour could not be too carefully developed; in the first place in regard to the preservation of future peace but also as a *possible* means for inflicting punishment for the war. It might conceivably be possible to refuse to admit Germany to a system of mutual help towards economic recovery unless she so changed the balance of her government as to give greater safeguards for peace by making it more democratic (grave though the difficulties in attempting to force Germany to modify her internal system would be).

He thought if the United States were prepared to accept such a scheme it could be advertised through another Economic Conference, which would represent a substantial modification of previous resolutions. The Americans could claim that they had not accepted the original policy but had been instrumental in securing a new one which

did not fail to utilise economic weapons but which sought to use them in a more justifiable spirit.⁷

The United States Government supported Britain in the first of the Allied economic aims, namely to interrupt German commercial and financial operations during the war. They supported the blockade and statutory list policy but only as a war measure which was temporary for the duration of the conflict. Such measures could only be justified by the existence of intolerable conditions and to achieve some lofty end attainable within a given time. Wilson realised that the economic weapon (i.e. Germany's fear of being excluded from overseas markets and denied access to raw materials) might have to be utilised in the event of an unsatisfactory peace, as he hinted in an address to Congress on 4 December 1917. However such measures were for achieving a specific purpose and would not continue indefinitely. The aim was to redeem, not to punish Germany.⁸

The Wilson administration came increasingly to recognise the importance of co-operation with the Allies, especially Britain, and the possibility that a satisfactory peace might largely depend upon the ability of the Associated Governments to play on German's fear of being excluded from overseas markets. It was even thought the Americans were ready to admit that such a threat might have to be executed, in the event of an unsatisfactory peace.⁹ An investigation undertaken by the Peace Inquiry Bureau into American preparations for peace reached conclusions similar to British and French thinking. It suggested the possibility of continued commercial exclusion weighed heavily on the German mind. Successful demobilisation at the conclusion of peace would rest upon raw materials and markets for the resumption of German

⁷ FO 368/1871/f170481/170481: Minute by Ernest Pollock, 9 October 1917.

⁸ Georges-Henri Soutou, 'German Economic War Aims Reconsidered: The American Perspective', in *Confrontation and Cooperation*, Schröder, (ed.) (Oxford, Providence, 1993 pp. 319ff.

⁹ FO 371 4360/117: 'American attitude towards Post-War Economic Policy' by the PID, May 1918.

industry. The ability to prolong peace discussions at the industrial expense of Germany and to the benefit of the United States would afford a bargaining power of great advantage. "This is our strongest weapon, and the Germans realise its menace. Held over them, it can win priceless concessions." It was recognised that with skilful handling this asset could be used to both lure and to threaten.¹⁰

There had also been the suspicion amongst business circles that British economic warfare was directed as much against American trade as it was against German. The restrictive blockade of neutral Europe, censorship of cables, the Statutory List and the Paris Resolutions were all resented as unwarranted interference. However the entry of the United States into the war meant that American businessmen no longer had to fear open discrimination from the Allies. There were even signs that they would be willing to join in discrimination against German goods after the war unless the German Government had become a responsible instrument controlled by the German people and the danger of excessive armament had been removed.¹¹ It was thought that businessmen were willing to pledge themselves to the policy of the economic weapon should the Wilson administration give the word.¹²

American public opinion in general followed the lead of the President. Through confidential discussions it was clear that the Wilson administration was increasingly favourable to co-operation over the use of the economic weapon. Lansing was impressed by reports of anxiety amongst German financial, commercial and industrial leaders over foreign trade after the war. The impression created was that the

¹⁰ Link (ed.), *The Papers of Woodrow Wilson*. vol. 45, p. 462. Memorandum by Sidney Mezes, David Miller and Walter Lippmann, members of the Peace Inquiry Bureau. 'The Present Situation: The War Aims and Peace Terms it Suggests. Assets. Our Economic Weapon', December 1917.

¹¹ Link (ed.), *The Papers of Woodrow Wilson*. vol. 46, p. 6. Chamber of Commerce of the USA, 'On a Proposal to Discriminate against Germany in Trade After the War if Necessary for Self-Defense', January 1918. The Chamber of Commerce noted that the size of German armaments after the war would fundamentally depend upon her post-war receipts of raw materials and the profits from her foreign trade.

repeated efforts of the Imperial Government for peace negotiations were due, in considerable measure, to pressure by these economic interests in order to deflect commercial isolation. Whether these fears were justified was of less importance than the fact that they existed. Lansing wondered whether the mental state of the influential German business class ought to be turned to the advantage of the Allies by making fears of post-bellum trade conditions more intense by threatening commercial rivalry after the war. Although he personally did not believe the imposition of penalties could be carried out, the threat might have the desired psychological effect in Germany. No stone should be left unturned to weaken the control of the German Government over the people.¹³ In reference to the scarcity of raw materials, Wilson thought that economic concessions would be cards as valuable as occupied territory. He stated to William Wiseman: "I shall go to the Paris Conference with these cards in my pocket, and there they shall stay until the German military party give way."¹⁴

Yet regardless of how similar the proposals seemed, the Americans considered their conception of the economic weapon to be different from that of the European Allies. Wilson made it clear that if Germany were willing to join a partnership of peaceful nations then Germany would not be subject to hostile trade arrangements. An economic boycott was not to be imposed after the right kind of peace had been secured but the threat of a boycott was to bring about the right kind of peace. The adverse impression created by the Paris Resolutions in America left the impression

¹² *The Daily Telegraph*, 5 March 1918.

¹³ Link (ed.), *The Papers of Woodrow Wilson*. vol. 45, p. 354. Lansing to Wilson, 25 December 1917. Also see vol. 46, p. 417, 23 February 1918 for a suggestion by Rollo Ogden that Congress enact a statute stating that unless Germany quit and restore Belgium and evacuate northern France within two months, for a term of ten years no German ship would be allowed to enter a US port, no German goods would be allowed entry through US customs houses and no German subject would be permitted on American shores. The threat of non-intercourse would only be contingent and automatically removed by a reasonable attitude on the part of the German Government with regard to ending the war.

¹⁴ Link (ed.), *The Papers of Woodrow Wilson*. vol. 46, p. 87. Memorandum by Wiseman after an interview with the President on 23 January 1918. William Wiseman was the British Government's unofficial contact with the Wilson administration.

that the European Allies wanted to pursue post-war economic discrimination for its own sake. In America the economic weapon could not be justified as a war measure without being cloaked in Wilsonian morality. Indeed, Wilson seemed ready to link the idea of co-operation for the economic defensive with the broader political ideal of a League of Nations and deepen co-operation to something verging on the internationalisation of resources. Hurley, chairman of the Shipping Board from the spring of 1917, believed that American control of the world's raw materials could prevent another war. He wrote to Baruch, of the War Industries Board, in May 1918:

Whilst the bloodiest war in history is progressing every nation is preparing not merely to get its share of foreign trade, but is trying to find out how much it can take away from other nations. The question as to what nation will control the raw materials of the world is uppermost in Europe. Whatever nation does control them (unless it be America) will make other nations pay a heavy toll.¹⁵

Yet the Wilson administration would ultimately hesitate to participate in international deliberations which they had themselves proposed.

British approaches to Washington for the organisation of practical economic measures.

Some form of accommodation was necessary in order to move beyond the shadow cast by the Paris Resolutions. In February 1918 Cecil reported positively on a conversation with Mr Sheldon. The latter thought his government would be willing to enter discussions with a view to imposing pressure on Germany to end the war but against anything like a post-war boycott with a view to disabling her. Cecil thought

¹⁵ He advocated control of Brazilian manganese ore, Chilean nitrates, Bolivian tin, New Caledonian chrome and Mexican oil, for fair distribution among the nations of the world for the benefit of mankind. Likewise Josephus Daniels, Secretary of the Navy, called for a billion-dollar American raw

the question a difficult one but of great urgency and in need of thorough examination in the United States.¹⁶

A month later Lord Reading, the British ambassador to Washington, reported that the time was ripe to combine consultation over post-war control with control during the war. The idea of co-operation between the Allies had been studied in a preliminary way but not by the administrative officials in charge of war trade matters. He thought it necessary to emphasise the practical nature of consultation.¹⁷ Reading believed it was important that any steps to lead the United States into preparatory economic measures, in the direction of consolidating the resources of the Allies against the Central Powers, should be taken under British leadership. Administrative co-ordination between the Allies and the United States, in the matters of the repression of enemy trade in neutral countries, the allocation of tonnage and the restriction of imports had fallen increasingly into British hands. Whilst France was America's spiritual home, Britain was regarded as their only effective business partner in the war.¹⁸

Nevertheless it was recognised that the problem of turning the broad principle of economic exclusion against the Central Powers into practical measures would not be easy. The First World War saw American leaders confronted with the dilemma of reconciling the demands for central direction and state control of the war effort with

materials corporation controlled by holding companies under the jurisdiction of the Treasury. See Kaufman, *Efficiency and Expansion* (London, 1974) pp. 188 and 213.

¹⁶ CAB 27/16/EOC. 63: 'Control of Raw Materials. Note by Cecil of a conversation with Mr Sheldon', 7 February 1918.

¹⁷ FO 368/2038/f39617/57526: Reading (Washington) to Foreign Office, 30 March 1918.

¹⁸ Clémentel and de Fleuriau, the Counsellor at the French Embassy in London, were increasingly worried by the prospect of an Anglo-American economic entente which would hold France in tutelage. They believed such commercial dominance could only be avoided by insisting on Allied resources being controlled by supra-national committees. See David Stevenson, *French war aims against Germany, 1914-1919* (Oxford, 1982) pp. 109 and 113.

the American belief in individualism and voluntary action.¹⁹ A lack of close touch between high policy and administration in Washington meant that practical co-operation would mean careful and patient missionary work for the British amongst administrative officials.²⁰ These were factors already familiar to British officials attached to the Ministry of Munitions mission working 'on the ground' in America. They reported departmental organisation along horizontal lines with no easy means of communication. There was a failure to grasp the fundamental requirement that materials should be available well in advance of contract need and there existed no authority in Washington able to collect the tonnage demands of all departments and compare it with the tonnage available.²¹ The Balfour Mission, which went to America soon after her declaration of war to liaise with the Washington administration on issues such as shipping, supply and the blockade, reported that war administration was in a state of chaos.²² Bernard Baruch, in charge of raw materials on the War Industries Board, noted a period of indecision and drifting in Washington during the autumn and winter of 1917-1918.²³

¹⁹ Robert Cuff, 'American Mobilization for War 1917-45: Political Culture verses Bureaucratic Administration' in *Mobilization for Total War: The Canadian, American and British Experience*, (Dreisziger, ed.) (Ontario, 1981) p. 79.

²⁰ CAB 27/16/EOC.67: 'Probable attitude of United States Government to Economic Offensive against Central Powers' by Reading, 13 February 1918.

²¹ Churchill MSS CHAR 15/23: J.W. Flavelle to R.H. Brand, 9 September 1918 and R.H. Brand to Churchill, 7 January 1918. Brand reported: "Both as regards purchasing and shipping, Government organisation here is extremely defective. There is nothing in the shape of a war cabinet and no authority co-ordinating the work on all these departments or getting a view of the whole situation." On a visit to the United States in 1917 Sir Arthur Salter noted: "Coming from London, after nearly three years of war organisation, constantly made more effective under the impelling force of scarcity and dire need, Washington seemed a chaotic scene. Committees were ill-defined and overlapping duties sprang into existence on all sides. It was difficult in the extreme to discover what they were really doing beyond talking and where, if anywhere, was the official authority which, on any particular question, had the power to act." Salter, *Memoirs of a Public Servant* (London, 1961) p. 97.

²² Kathleen Burk, *Britain, America and the Sinews of War, 1914-18* (London, 1985) p. 135. Along with the practical task of developing the American economy for war, the Mission also aimed to create a better understanding between both countries and dispell American mistrust of British motives. See Doreen Collins, *Aspects of British Politics, 1904-1919* (Oxford, 1965) p. 281.

²³ Bernard Baruch, *The Public Years* (New York, 1960) pp. 50-52.

An editorial in the *New York Journal of Commerce* on 10 June 1918 observed there was a lack of co-ordination between the workings of the Presidential mind and the sub-official mind in Washington. Whilst the Wilson administration seemed to be coming to terms with the idea,

the necessity of employing economic pressure to bring the German people to reason has, in the councils of the *Entente*, long passed beyond the stage of controversy. This, be it noted, is without any reference to the Paris resolutions, from which our Government very properly withheld its approval...Against a Germany which hesitates to make full restoration or to join a general pact of disarmament, and conciliation, it must be prepared to impose a boycott so stiff, so united, so effective, that these hesitations will disappear. The more united and decided the threat of economic war the less risk there is that it will have to be enforced.²⁴

The economic weapon was becoming divorced from the stigma of the Paris Resolutions and coming to be regarded as a necessary policy in its own right.

Relations between Britain and neutral countries with regard to Allied schemes for the control of the world's resources.

The lynch-pin to most of the measures concerning the organisation of Allied economic resources envisaged by the Allies at the Paris Conference was the position of existing commercial treaties.²⁵ However it was recognised that differentiation in favour of the Allies over neutrals, might be held to conflict with the most-favoured-

²⁴ Quoted in 'Further notes on the United States and the Economic Offensive.' FO 371/4360/249: 25 July 1918.

²⁵ In Resolution B.I of the Transitory Measures, the devastated countries reserved prior claim on the raw materials, industrial and agricultural plant, stock and mercantile fleet of the Allies. In Resolution B.III the Allies agreed to conserve for themselves their natural resources during the period of commercial, industrial, agricultural and maritime reconstruction, and, to facilitate the interchange of these resources. Commercial treaties with enemy nations had already lapsed at the outset of war and Resolution B.II stated that most-favoured-nation treatment would be withheld for a number of years after the cession of hostilities. During this time the Allies would undertake to assure for each other compensatory outlets for trade resulting from such action. Cd. 8271, *Recommendations of the Economic Conference of the Allies* (1916).

nation clauses in commercial treaties with neutral states.²⁶ Such selective treatment in the distribution or rationing of raw materials to Allied countries would not be possible without revising existing most-favoured-nation clauses which meant denouncing present commercial treaties. This did not necessarily mean adopting an unfriendly attitude towards neutrals but merely recognising that future British commercial arrangements must consider conditions different from those which existed when they were first framed. In Britain's case a similar situation would ensue if any system of imperial preference were to be instigated.

The Foreign Office, who were not consulted departmentally either before or after the Paris Conference, considered such a threat with real concern, particularly when the United States was still a neutral. Victor Wellesley, head of the commercial and consular department, thought that to differentiate in favour of the Allies to the detriment of the neutrals by denying the latter benefits of most-favoured-nation treatment would lead to resentment. They could resort to measures of retaliation, such as differentiating in favour of the Central Powers, which could hardly fail to react unfavourably on political relations.²⁷

It was not only political relations that caused concern but also the effect such action might have on economic relations. Before the Paris Economic Conference Llewellyn Smith, permanent under-secretary at the Board of Trade, examined the consequences of promoting inter-Allied trade with preferential customs and the practicability of these proposals with regard to provisions in Britain's existing commercial treaties. He concluded that any plan to give preferential treatment to the Allies involving a four-fold import tariff (imperial, allied, neutral, enemy) might

²⁶ Lloyd-George MSS F/194/2/4: 'Memorandum on the Control of Exports during the transitional period after the war, with a view to the conservation of the resources of the Empire and the Allied Countries' by the Board of Trade, 15 March 1917.

necessitate the denunciation of some or all of Britain's commercial treaties with non-Allied countries which gave reciprocal most-favoured-nation rights.

The likely results of such action on British commercial relations were varied. Any preferential treatment to Russia regarding grain would be likely to adversely affect important British interests in Argentina, the economic development of which had mainly been with British capital. There were perhaps good grounds for giving the Dominions preferential customs treatment over Argentina in respect of grain but not Russia. Discrimination against Norway would penalise a country markedly less difficult during the war than other Scandinavian countries and with whom good relations should be retained. The cessation of treaty relations with adjacent neutrals might push them towards Germany. The denunciation of the Treaty of 1815 and the cessation of most-favoured-nation treatment to the United States could lead to potentially disastrous retaliation. In Central and South America the British trade position was already insecure and there was constant pressure on states in these regions to enter into closer relations with the United States. Any purposeful weakening of influence by Britain could lead to complete dominance by America.²⁸ The issue highlighted inconsistencies for post-war policy over relations between Britain and the Allies, her Empire and neutral states. It also threatened to renew debate between protectionists and free traders over the course of post-war economic policy. The Federation of British Industries urged the Government to denounce all commercial treaties immediately in order that there might be a clean slate for the future development of British industry.²⁹

²⁷ FO 368/1849/f386/27165: 'The Treaty Position' by Hewins, 4 September 1916 and minute by Wellesley of 11 September 1916.

²⁸ Asquith MSS Box 29: 'Post-Bellum Tariff Policy and British Commercial Treaties' by Llewellyn Smith, 10 March 1916.

²⁹ CAB 24/28/GT.2254: FBI to Prime Minister, 6 October 1917.

In the event the Foreign Office followed a subtler policy which allowed the Government freedom of action in the immediate post-war period without resorting to such drastic a measure as complete renunciation. Cecil Hurst, the Legal Adviser to the Foreign Office, drew a distinction between the offensive and defensive elements of the measures. It had already been necessary to unofficially suspend most-favoured-nation clauses in order to provide the import/export control over trade needed to conduct the war and ensure inter-allied co-operation. This was taken as understood by the neutrals as a necessary but ultimately temporary measure for the duration of the war. Similarly, temporary prohibitions on exports amongst the Allies for the accumulation of stocks to replenish damaged lands and allow industry and manufacturing to return to normal pre-war conditions would not violate the provisions of various commercial treaties with neutrals if they continued for a defined period.

However the same case could not be made for any temporary prohibition imposed for the purpose of preventing Germany from obtaining raw materials in order that British manufacturing might have unrestricted opportunity to flood foreign markets free from competition. Cecil thought temporary prohibitions for reconstruction were a legitimate departure from the strict letter of the treaty but not from its spirit. Any moral justification would disappear if this was used to obtain unfair commercial trade advantages. Any denunciation of commercial treaties would give a wholly erroneous impression of the intentions of the Allies as to trade after the war. Ultimately it should be left to the neutrals to complain if they felt unfairly treated.

Wellesley was certain that the neutrals would contest any prohibitory measures and unless Britain was prepared to uphold the doctrine in the face of all legal and

political considerations it would be unwise to adopt such a policy.³⁰ Consequently the advice of the Lord Chancellor was sought. He thought the moral obligation towards the Allies outweighed the strict point of law regarding most-favoured-nation clauses in commercial treaties, especially as such circumstances could not have been contemplated by parties at the time a treaty was made.³¹

The pressure for a decision was maintained with the announcement by the French ambassador in April 1917 that the French Government intended to denounce commercial treaties with foreign powers to secure a free hand for commercial policies necessary to give effect to the Paris Resolutions. Strictly speaking there was nothing in the Paris Resolutions to necessitate the abolition of most-favoured-nation clauses except with regard to enemy countries. The French were attempting to pull other Allied countries into following suit and pave the way for Allied preference. The potential problem of offending the neutrals was lessened by the entry of the United States into the war during the same month but the problem still bristled with difficulties. The remaining disgruntled neutrals could join with the Central Powers whilst the United States showed no inclination to adhere to the Paris Resolutions.³²

Sir Albert Stanley thought denunciation was premature and undesirable unless the Government had actually decided upon a course of economic policy inconsistent with the commercial treaties. He considered denouncing all commercial treaties would in certain cases needlessly expose British trade to considerable peril after the war.

³⁰ FO 368/1849/f386/19281: Minute by Hurst on most-favoured-nation clauses of 9 February and minute by Wellesley of 10 February 1917. The Board of Trade were inclined to follow the Foreign Office line not to denounce the treaties but to continue to ignore the most-favoured-nation clauses which, in any event, had provoked little opposition from neutrals during the war. Ibid., f386/110842. Fountain (BT) to Balfour, 2 June 1917.

See also FO 368/2030/f1540/5747: 'Memorandum on proposed declaration respecting most-favoured-nation clauses in British commercial treaties' by the Commercial Department of the Board of Trade, 9 January 1918. It was thought the neutrals would lose more in retaliation as the British import trade from them was much greater than British export trade to them.

³¹ FO 368/1849/f386/63293: Lord Chancellor to Balfour, 23 March 1917.

³² FO 368/1849/f386/79010 and 110842: Minutes by Wellesley of 24 April and 6 June 1917.

Several of the treaties, although they did not give British trade all the protection it desired, were valuable safeguards as far as they went and could not be renegotiated at the present time on such favourable terms.³³

The Imperial Trade Policy Committee, who established a sub-committee to consider the denunciation of treaties, reported that Britain had been compelled by wartime conditions to depart from most-favoured-nation clauses. They recommended that a declaration be issued pointing out that Britain did not intend to renew most-favoured-nation clauses for a fixed period after the war. Precautions should also be taken to prevent German goods from being imported into the British Empire as neutral goods and to prevent neutrals from buying imperial goods for the German account. At the same time neutral countries should be informed by circular despatch that despite great efforts it had not always been possible during the war for Britain to give equal treatment to all nations, whether friendly Allies or neutrals. During the period of reconstruction, Britain would be unable to do more in carrying out her obligations under the most-favoured-nation clauses than to strive to give her Allies equal, though not identical treatment, and to give to neutral nations “the nearest approach to equality and identity which could be achieved consistently with the interests of Britain’s financial and commercial situation, and that of her Allies.” Any country who felt

³³ CAB 21/108/G-158: Memorandum by the President of the Board of Trade, 4 October 1917. The similarity is striking with arguments used in the early 1930s, when the Board of Trade resolutely opposed the voluntary abandonment of the most-favoured-nation clause during negotiations for protectionism. The Board of Trade considered British trade far too diversified to benefit from abandonment and the danger of discrimination was thought enormous. Britain had more than 40 treaties, some of which had no provision for termination, and the Board of Trade was alarmed at the prospect of renegotiating such agreements. They thought it was really the decision of Britain’s partners in the trade negotiations to denounce their treaties and most-favoured-nation rights. See Tim Rooth, *British Protectionism and the international economy: overseas commercial policy in the 1930s* (Cambridge, 1993) p. 111.

dissatisfied with Britain's actions could denounce commercial treaties with Britain altogether.³⁴

It was considered doubtful whether an announcement by the British Government that she proposed to adopt a) Imperial preference, b) Allied preference over neutrals and c) neutral preference over her enemies, would be a cause for great concern on the part of the Central Powers.³⁵ The ability of the Government to carry out such a policy depended upon the result of the war and whether the Allies could defeat Germany and Austria to such an extent to impose terms upon them. If it came to a peace by compromise the Government might be forced to modify her claims and risk looking foolish at having announced a policy she was no longer able to carry out.³⁶ Nevertheless the policy was approved by the War Cabinet who ordered the drafting of a circular. The neutral countries whose treaties with Britain contained express stipulations as regards export and import restrictions included many important Latin American trading nations; Argentina, Bolivia, Colombia, Honduras, Mexico, Nicaragua and Venezuela, and, European neutrals; Sweden and Switzerland. Britain hoped that the repayment of a 'debt of honour' to her allies would not be regarded by the neutrals as grounds for terminating commercial relations but also recognised that the power to denounce was mutual.³⁷

³⁴ FO 368/1849/f386/217453: 'Commercial Treaties. Interim Report to the Cabinet' by the ITPC (drafted by Robert Cecil), 7 November 1917.

³⁵ Yet it was thought that a valuable impression would be created in neutral circles if it were to be known that the British were arranging their post-war financial policy and the question of the apportionment of raw materials was one of the main items in any such consideration. The principle on which such apportionment would be decided was to place the Allies first, neutrals next, and enemies last. The implication was that any country which desired to come in on a better footing should lose no time in placing itself in the first category. CAB 21/108/GT.4368: Hardinge to Hankey, 25 April 1918; FO 371/3381/52478: Minute by Cecil, April 1918.

³⁶ Ibid., Minute by Charles Tufton, 17 November 1917. Sir Eyre Crowe brushed aside his misgivings believing such a Declaration to be 'perfectly sound and practical'.

³⁷ CAB 23/5/WC.283(17)10, 27 November, 1917.

Mr Sperling of the Prize Court minuted that the Declaration could hardly fail to have an unfortunate effect on commercial relations with Latin American countries. The despatch of circulars coincided with a commercial mission to South America by Sir Maurice de Bunsen. A treaty for facilitating the

Sir Edward Carson, always one of the most vocal advocates of adopting the Paris Resolutions, now used his official position as chairman of the Economic Offensive Committee to press the Government. The Committee were clearly convinced of the necessity of comprehensive measures for the acquisition and distribution of raw material supplies, the instruments of production and transportation, and the effective control of exports and imports by the Governments of the British Empire and their Allies. It was recommended a declaration denouncing commercial treaties should be issued with least possible delay to make the enemy realise the future danger of prolonging the war and peace negotiations.³⁸

In discussion in the War Cabinet, Cecil declared the power to suspend the most-favoured-nation clauses was vital to enable Britain to fulfil obligations to her Allies. Churchill was in agreement, in so far as they were war measures and necessary for wearing down the enemy. The Report was approved, with suspension rather than abrogation confirmed as policy.³⁹ However in the House of Commons, Bonar Law gave a positive reply when Carson asked whether the commercial treaties of Britain were to be denounced.⁴⁰ This appeared to constitute a *volte face* on the part of the War Cabinet. In actual fact Bonar Law had been misinterpreted. He had merely intended to answer that the Government had decided to give themselves a free hand with regard to the maintenance of existing commercial treaties.⁴¹

exchange of goods with Argentina was now far less desirable from the latter's point of view. See FO 368/2030/f1540/80009.

³⁸ CAB 24/4/G-177: 'Interim Report No.6 of the Committee Appointed by the War Cabinet to Consider the Question of an Economic Offensive', 6 December 1917.

³⁹ CAB 23/5/WC.312: 3 January, 1918.

On 18 July 1918, Cecil reported to the War Cabinet that the circular regarding most-favoured-nation clauses and the 'free hand' had been sent out with the approval of the Dominions. CAB 23/6/W.C.448.

⁴⁰ 106 H.C. *Deb.* 5s. col. 31, 13 May 1918.

⁴¹ CAB 23/5/WC.413: 17 May 1918. Chamberlain was to explain the position to the Board of Trade and Walter Long without the necessity of a special explanation to Parliament.

Yet the resulting confusion over policy led to criticism of the Government's seeming reluctance to subscribe to definite economic measures.⁴² A lead article in *The Times* described the attitude of the Government over economic policy as "incurably vacillating". Allied control over raw materials was one of the most powerful means of convincing the German people that the war would not be profitable for their industries or their commerce. Yet it was thought that effective control of raw materials or any other concerted economic measures of the Allies was impossible without denunciation of most-favoured-nation clauses. It was considered a test-case for Germany and as long as the British Government hesitated, Germany would doubt whether Britain wished to destroy the economic basis on which their militarism rested.⁴³

The role of the Empire.

When British politicians spoke of controlling raw materials they were largely referring to imperial resources.⁴⁴ From this point of view, before Britain could become involved

⁴² The Government was besieged with parliamentary questions from Members demanding to know what line the Government was taking over denunciation. 107 H.C. *Deb.* 5s. col. 713, Holt to Bonar Law, 24 June 1918; col. 1849, Major Newham to PM, 4 July 1918. 108 H.C. *Deb.* 5s. cols. 691 and 1044, Capt. George Lloyd to Balfour, 15 July 1918 and to PM, 17 July 1918; col. 1045, Carson to Bonar Law, 17 July 1918.

⁴³ 'Economic Vacillation' in *The Times*, 18 July 1918.

⁴⁴ The most zealous officials envisaged extending Allied control to resources in neutral countries. For instance, plans were set in motion for the British to obtain control over the surplus production of Norwegian pyrites in order to cut off supplies to Germany. The purchase of the Orkla mine in Norway, the greatest producer of pyrites in Scandinavia, was under consideration in order to control the European market. If such control was not obtained it left 600,000 tons of pyrites, vital for agriculture and the chemical industry, on the open market. CAB 27/16/EOC.22: Memorandum on the dependence of Germany on pyrites for the chemical trade and fertiliser manufacture, 5 November 1917; CAB 27/44/EDDC.12: Findlay (Christina) to Balfour, 18 June 1918; CAB 23/6/W.C. 405, 6 May 1918. Meanwhile the American Department of the Foreign Office considered buying stocks of coffee accumulating in Brazil. The Foreign Office were primarily concerned with increasing British prestige by assisting Brazil through the economic crisis brought on by difficulties in disposing of coffee stocks. The Foreign Trade Department saw the potential for eliminating the influence of German coffee merchants who before the war practically controlled the Brazilian market and continued to maintain themselves despite efforts by the Allies to dislodge them. CAB 27/16/EOC.80: 15 May 1918 and Cecil MSS Box 51093: Sir Percy Bates to Cecil, 30 May 1918. Some questioned whether the crippling of German trade after the war was still Government policy and if so, would it not be better to begin with property situated in the British Empire and Allied countries.

in any inter-Allied action she needed to take into account the views of the Dominion Governments.⁴⁵ At the opening meeting of the Economic Offensive Committee both Walter Long, the Colonial Secretary, and Addison stressed the importance of first completing organisation with the Dominions. Long pointed out that there could be no question of a single-handed economic system for Britain. The necessity for securing a united imperial front on such questions was emphasised by the tendency of the United States and other Allies to play their own hands first.⁴⁶

From September 1915 W.A.S. Hewins pushed Asquith for an imperial economic council through which the Government could bring the whole economic strength of the Empire into co-operation with the Allies in a policy directed against the “German economic octopus.”⁴⁷ Before the outbreak of war Germany imported many important commodities from the British Empire. For instance in 1912 the British Empire supplied Germany with 72% of her jute, 89% of her palm kernels, 79% of her rape-seed, 93% of her shellac and 77% of her merino wool. In combination with other countries the potential for control by the Allies was further increased. Of Germany’s pre-war supplies of zinc (ores and metals) 2.8% came from Britain, 43.3% came from British possessions and 50.4% from other Allied countries (and their

CAB 27/44/EDDC.17: Memorandum by Mond, 2 July 1918. Schemes such as these were abandoned when the EOC metamorphosed into the Economic Defence and Development Committee and shifted the emphasis of its focus.

⁴⁵ See Paul Barton Johnson, *Land Fit For Heroes* (Chicago, 1968) pp. 123-4.

⁴⁶ CAB 27/15/Minutes of the first meeting of the EOC: 18 October 1917.

⁴⁷ W.A.S. Hewins, *The Apologia of an Imperialist*, vol. 2, pp. 54-61. Hewins wrote that even Asquith’s inertia could not stop the progress of such plans. In the Commons on 10 January 1916 the Government accepted such a scheme. Hewins kept up the pressure for action through the Unionist Business Committee. See Balfour MSS 49779: Hewins to the Prime Minister conveying a Resolution of the UBC, 29 January 1917.

Hewins had been the first director of the London School of Economics (1895-1903) and a member of Joseph Chamberlain’s Tariff Reform Campaign before becoming a Unionist MP in 1912. He served as under-secretary of state for the colonies from September 1917 until January 1919.

colonies). The potential for economic pressure on Germany through raw materials was clearly recognised.⁴⁸

Discussions for an economic weapon of war merged with notions of imperial self-sufficiency and imperial preference which had been fostered through the experience of war.⁴⁹ The Committee on Commercial and Industrial Policy recommended that steps be taken to stimulate the production of foodstuffs, raw materials and manufactured goods in the Empire wherever the expansion of production was possible and economically desirable for the safety and welfare of the Empire as a whole. They wanted the Government to accord the products of overseas dominions preferential treatment in respect of any future customs duties imposed on British imports. Furthermore, they considered the desirability of establishing a wider range of customs duties which could be remitted or reduced on the products and manufacturers of the Empire which would form the commercial basis of a treaty with Allied and neutral powers.⁵⁰

At the Imperial War Conference (IWC) of 1917, the Colonial representatives agreed to take the power to restrict imports from enemy countries to prevent dumping or unfair competition during the transition period. However they stopped short of the total prohibition, subject to exceptions by licence, which the Board of Trade had in mind for Britain. With regard to exports, there was apprehension that Germany might

⁴⁸ Figures from Cd. 9034, *Interim Report on the Treatment of Exports from the UK and British Overseas Possessions and the Conservation of the Resources of the Empire during the transitional Period after the War*, 14 December 1916, pp. 11-12. Also see CAB 27/15/EOC.21: 'Economic Pressure on Germany. Control through raw materials' by C.W. Fielding (Ministry of Reconstruction) and EOC.19, a memorandum by Hewins on German dependency on raw materials of the British Empire, both dated 6 November 1917. Also CAB 27/16/EOC.26. 'Control of Raw Materials. Draft Interim Report 5 by the Committee appointed by the EOC to consider the economic offensive', 16 November 1917.

⁴⁹ See Robert Bunselmeyer, *The Cost of the War, 1914-1919* (Hamden, Conn., 1975) pp. 47-51.

⁵⁰ BT 11/11/c.8237/17. Resolutions and Interim Report on the treatment of exports and conservation of resources, 2 February 1917. Llewellyn-Smith minuted: "The value of imperial preference apart from an extended tariff would be mainly sentimental but in respect of certain articles e.g. Colonial wine, I think some of our Allies - France, Portugal, Italy - may be somewhat alarmed."

retaliate by prohibiting the export of goods the British Empire wished to import. There were some German goods, such as dyestuffs and chemicals, for which alternative supplies in adequate quantities would not be available.

They also feared that neutral nations might refuse to provide essential supplies unless they received equal treatment with the Allies. They wondered whether the enormous pre-war export trade to Germany could be absorbed within the Empire and Allied countries. They suggested that though it might be desirable to limit intercourse with the Central Powers after the war, any surplus (after home and allied needs had been satisfied) should be exported anywhere. The Dominions had stocks of materials to dispose of which had been held up by a lack of tonnage. As for imperial preference, they encouraged moves to make the British Empire independent of other countries in respect of food, raw materials and essential industries but they doubted whether the recommendations of the Balfour of Burleigh Committee were capable of enforcement in practice. Low cost transportation was considered just as effective as a customs preference and less overtly discriminatory against present Allies who were major wheat and meat producing nations, such as the United States and Russia.⁵¹

The IWC charged Lord Milner with chairing a committee to consider economic terms of peace. The committee rejected the Paris Resolutions as being unable to provide a stable basis for the guidance of the British Government. It stressed that the British Empire should be free to control imperial resources, their development and utilisation for essential national purposes. It was important that steps be taken

The issue is treated at greater length in Ian Drummond, *Imperial Economic Policy, 1917-39* (London, 1974) esp. pp. 34ff and 425ff.

⁵¹ CAB 32/1/IWC (1917): Resolution XVII of 27 April and XXI of 26 April. FO 368/1849 F386/75722 and 202023. Memoranda of the discussions of the Imperial War Conference (2/3 April, 1917) by Maurice de Bunsen. See also Ian Drummond, *British Economic Policy and the Empire, 1919-39* (London, 1972) p. 57ff.

towards the management of imperial commodities.⁵² India, for instance, had a monopoly over the supply of jute and the Indian Government was in a position to control the distribution of the crop. In June 1916 the British Government had established machinery to buy the domestic wool clip and this was followed in November with the purchase of the whole Australian and New Zealand clip.

The emphasis placed on taking control of imperial resources was due to the fact that it was often not enough for commodities just to be produced within the Empire. Even though sources of supply were found in the British Empire or owned by British companies, control could still be exercised by foreign interests. In the case of spelter, the world's largest supplies were found in Australia. Yet before the war Britain had imported much of her supplies from Germany and Belgium. The output of Australian ores was controlled by German interests by means of long-period contracts with Australian producers. Thus the world's spelter trade was controlled by a German company operating through a series of allied or subsidiary companies for production and marketing world-wide.⁵³ William Hughes, the Australian attorney-general, set about breaking this foreign hold by introducing the Enemy Contracts Annulment Act in May 1915.⁵⁴

One of the innovations of the Conference had been the Imperial Mineral Resources Bureau.⁵⁵ Its task was to advise the governments of the Empire on what action might be desirable to enable their mineral resources to be developed and made available to meet the military and commercial needs of the Empire. It was to be based

⁵² CAB 21/71. Lord Milner's Committee to consider the Economic and Non-Territorial Desiderata in the Terms of Peace: April 1917.

⁵³ Cd. 9035, *Final Report of the Committee on Commercial and Industrial Policy after the War*, (1918) p. 15.

⁵⁴ The Broken Hill Junction North Silver Mining Company was under contract to deliver to a German firm its entire output of zinc concentrates up to the end of 1921. The Australian Metal Company, an offshoot of the Metallgesellschaft, had exclusive rights to act as broker and agent for the products of

in London and contain representatives of the Imperial Governments and commercial interests. Trade co-operation was essential as the Bureau was to be directly concerned in the mining, mineral and metal industries.⁵⁶

The impetus given by the Committee on Trade Relations of the United Kingdom within the Empire.

After the Conference a Committee on Trade Relations of the UK within the Empire was established, under the chairmanship of Walter Long, to give effect to the IWC Resolutions. In January 1918 the Committee took up the question of control of raw materials after the war, primarily for conservation of materials required for the Empire. It was anticipated that any system of licensing exports by the British Government and the Dominions would prove inadequate. Long was not optimistic believing that the Committee must investigate but that the Dominions would never agree to surrender control of their own raw materials.⁵⁷

In late 1917 the Committee had before them Carson's views on the control of raw materials embodied in a report from the EOC.⁵⁸ They also examined a Ministry of Reconstruction memorandum on economic pressure which stated that the Government should be ready to confront the Central Powers with secured control of commodities related to agriculture, mining, the textile industries, chemical and metal production.⁵⁹ In considering their own lines of enquiry, it was thought the Long Committee should

several Australian mining companies. See H.W. Carless Davis, *A History of the Blockade. Emergency Departments* (HMSO, 1920) pp. 105-6.

⁵⁵ IWC (1917) Resolution XIII.

⁵⁶ CO 532/116/30712: Report of the Imperial Mineral Resources Bureau Committee, 30 July 1917.

⁵⁷ CO 532/114/1991: 8th meeting of the Committee on Trade Relations of the UK within the Empire. 2 January 1918.

⁵⁸ CAB 27/16/EOC.26: Interim Report No. 5 from the EOC on the control of raw materials, 16 November 1917.

assess what raw materials should be included in the policy of control and for what purpose post-war control was intended. There was a clear economic and political line between keeping Germany from a share of raw materials which Britain and the Allies wanted and keeping her from those they did not want. State purchases of wool and similar commodities as required would automatically keep Germany from many commodities she badly needed to restart her industries. As soon as Britain went beyond this policy she stood to incur a much greater financial risk and considerable political difficulties.⁶⁰ Hewins thought the Government had to consider a) what proportion of raw materials Britain and the Empire needed were controlled by itself or by the Allies, and b) what proportion the Allies needed of those materials controlled by the British Empire.⁶¹ Then one could be off-set against the other, presumably to the benefit of the Empire.

It was decided that the investigation by the Long Committee should proceed along both defensive and offensive lines. The objects of control were to secure for the British Empire and belligerent Allies a sufficiency of raw materials in order to repair the effects of war and safeguard essential industries. They were to exert pressure on enemy powers so as to induce them to conclude an early peace through fear of economic ruin after the war and strengthen the Allies' hand in conducting negotiations at a peace conference. It was recognised that some method of inter-Allied co-operation was essential. It was thought probable that direct controls by an inter-Allied body were impractical but that the machinery of control should be such as to be suitable for negotiation and co-operation with the Allies. This machinery should be created at the earliest possible moment in consultation with the Dominions and India. Steps should

⁵⁹ CAB 27/16/EOC.31: Memorandum on economic pressure by the Commercial and Industrial Council of the Ministry Of Reconstruction, 20 November 1917.

⁶⁰ CO 537/997/59795: Minutes by Edward Harding and Henry Lambert, assistant under-secretary of state for the colonies, 30 November and 12 December 1917 respectively.

therefore be taken to consult with belligerent Allies and particularly with the United States over their requirements for imperial raw materials, the reciprocal assistance they could give with raw materials under their control and the use which could be made of this control for exerting pressure on enemy powers.

During this process the principle should be maintained that in all negotiations the British Empire would operate as a unit. It was suggested that in any despatch to the Allies it should be stressed that the self-governing Dominions would probably be disinclined to control a large number of their products, or to appropriate any single product in its entirety for the use of Britain or the Allies. It was felt these scruples were both natural and reasonable because the preferential treatment of the Allies by the Empire was likely to excite resentment in neutral countries if it resulted in depriving the latter of raw materials they were used to receiving. Also priority given to the Allies and enforced in the form of Government restriction would undoubtedly leave producers under the impression, rightly or wrongly, that their pecuniary interests were being injured.⁶² Following these criteria for investigation, the Foreign Office initiated an enquiry to see whether any organisation had been created in another country for ascertaining its resources and needs in respect of raw materials, similar to that contemplated by the British.⁶³

The Committee was in favour of leaving each of the Dominions to decide, in respect of each of the raw materials it produced, whether to exercise control, by what method and to what benefit. They deprecated the idea of pressing the Dominion and Indian Governments to adopt an inflexible system of control devised in Britain without regard to local interests and circumstances. There was no good reason for

⁶¹ CAB 27/16/EOC.50: Memorandum for the EOC by Hewins, 19 December 1917.

⁶² CO 532/114/10132: First Report on Raw Materials and minutes of the 11th meeting of the Committee on Trade Relations of the UK within the Empire, 20 February 1918.

insisting on mechanical uniformity of administration so long as the object in view was achieved. This view was to ensure specified quotas of raw materials for the Allies and (perhaps) for bargaining with present enemies.⁶⁴ It was proposed to the War Cabinet that the Imperial War Conference be asked to approve the policy and the list of materials to be considered.⁶⁵ Once the principle of control had been established at the Conference the detailed negotiation could commence. Along this line the Foreign Office dispatched a circular to their ambassadors in Allied countries requesting information regarding raw materials required from Britain and raw materials that those countries could provide for Britain.⁶⁶ Addison suggested the establishment of a Central Raw Materials Board to act as an international clearing-house for materials dealing with their acquisition and allocation.⁶⁷

For the policy to succeed the Dominions had to adopt the power to prohibit exports and re-export (except under licence) and reserve the right to requisition goods stored on foreign account. Precedents and models for further control were the existing purchasing schemes (such as the Central Wool Committee of the Commonwealth) and

⁶³ FO 368/2038/f39617/39617: Foreign Office to Paris, Rome, Lisbon, Havre, Athens, Corfu and Washington, 11 March 1918.

⁶⁴ FO 368/2038/f39617/48558: Second Report on Raw Materials, 12 March 1918.

⁶⁵ CAB 21/108/GT.4470: Report presented by the Committee on Trade Relations of the UK within the Empire and action taken up to 1 May 1918.

⁶⁶ CAB 21/108: Circular from Wellesley to Paris, Rome, Tokyo and Washington, 23 May 1918. Materials recommended for control included: Asbestos, cotton, copper, hides and skins, jute, lead, manganese ores, mica, nickel, rubber, spelter and zinc concentrates, steam coal, tin and ores, tungsten ores and wool. The circular also requested details of the quantity of domestic production before and after (estimation) the war, the quality of present domestic production and estimated quality of further production according to world standard, domestic requirements of materials before and after the war, and, sources of imports, exports and re-exports before the war.

⁶⁷ The Board would deal with all questions connected with the acquisition of materials and be responsible for shaping any scheme of international allocation and carrying through negotiations with the Dominions and Allies. The Board would consider what Government action might be required to obtain necessary supplies of raw materials for British industries during the reconstruction period and to arrange, with sanction of the Treasury, for such purchases with a preference given to imperial sources of supply. It would also facilitate any arrangements which representative trade associations desired to make with foreign or British Empire Governments for the supply of raw materials and negotiate with the Dominions, India, Egypt and the Allies for any special facilities desired for purchases intended for Britain. Finally, the Board would facilitate negotiation between the Government's of the British Empire and those Allies who wished to obtain imperial raw materials. See CAB 27 44 EDDC.47: 'A

licensing schemes (such as the Jute Control scheme proposed by the India Office and the rationing of rubber and tin from various colonies and protectorates).⁶⁸ If the Committee was mindful of the Dominion and Indian position, others in the Colonial Office were concerned with the effect of policy on the colonies. Mr Harding, from the Empire Trade Committee, warned that it was a primary feature of British colonial policy that the interests of the colonies should not be sacrificed to the interests of Britain. The colonies had acquiesced in restrictive policies, firstly to stop supplies reaching enemy countries and later to ensure supplies for the Allies and safeguard a reasonable price. The resulting losses were considered a 'war contribution' from the colonies but the position could not continue once the war was over.⁶⁹

The representatives at the Imperial War Conference met in June 1918. In his opening speech, Long stated that the most important subjects for consideration were connected with economic questions; namely the control of raw materials, import/export legislation, the Non-Ferrous Metals Bill, and wool and meat control.⁷⁰ It was agreed by the delegates that it was necessary for the British Empire and belligerent Allies to command certain essential raw materials to repair the effects of war and safeguard industrial requirements. It was recommended that the governments of the Empire should make arrangements for the provision and utilisation of essential raw materials. Those commodities to be considered were asbestos, cotton, jute, wool, hides and skins, leather, rubber, oleaginous products, petroleum, copper, lead and

Central Raw Materials Board' by Addison 1918 and RECO 1/408/8040. See also Johnson, *Land Fit for Heroes*, pp. 253-7.

⁶⁸ CO 532/116/27364: Third Report on Raw Materials, June 1918. The other options were for the British Government or some purchasing organisation with Government sanction to conclude simple contracts for the purchase of quantities less than the total exportable surplus. It was difficult to conclude contracts of this kind without some threat of control in the background. Another option was to prohibit export except under licence, combined with a rationing scheme, without any system of purchase. This option was not likely to be applicable as a general rule.

⁶⁹ CO 532/116/32806: 'Control of Oleaginous Produce' by A.J. Harding, 18 June 1918.

⁷⁰ CO 532/116/28812: Notes of opening speech at IWC (1918) by Walter Long.

ores, manganese, nickel, spelter and zinc, tin, tungsten, mica, molybdenum and steam coal.⁷¹

Alexander Cadogan, a clerk in the Commercial department, commented that it was “another short step on the long road.”⁷² Imperial planning was outlined in a report by the Committee on Raw Materials, largely inspired by Hewins and adopted by the IWC. The Dominions were to consider action in the light of local conditions but begin immediate consultation with producers and traders of the materials specified. In other departments there was disappointment that the Dominions appeared to have shown so little readiness to convert measures seriously and it was felt they had never been seized with the gravity of the problem or got beyond a purely parochial view.⁷³ The Report of the Raw Materials Committee considered it difficult for the Dominion governments to settle post-war policy with regard to various raw materials until they had some idea of the likely requirements of the Allies. The time had now come for an inter-Allied conference on raw materials to provide the necessary estimates.⁷⁴

The economic boycott and the propaganda effort.

In February 1918 Lord Northcliffe was appointed as director of propaganda in enemy countries. His organisation, based at Crewe House, intended to intensify the psychological offensive against the enemy by revealing to them the ‘hopelessness of

⁷¹ CAB 31/1/IWC (1918). Resolution III and IV of 26 and 28 June respectively.

The Committee on Trade Relations of the UK within the Empire circulated reports to the Board of Trade, India Office, Treasury and Ministry of Reconstruction concerning the production of many of these commodities. See FO 368/2039/f39617/160098 (tin)/161239 (tungsten)/161240 (lead)/161245 (spelter)/161484 (rubber, copper, manganese).

⁷² FO 368/2039/f43016/114348. IWC, Fifth Day, 26 June.

⁷³ FO 368/2038/f39617/129590: Minute by Arthur Steel-Maitland, 11 August 1918. Cecil added that the IWC, in this matter, had been sadly mismanaged and he doubted now whether things could be put right.

⁷⁴ CO 532/116/36167: Report of the Committee on Raw Materials, 23 July 1918.

their cause and the certainty of Allied victory'.⁷⁵ In May, H.G. Wells drafted a memorandum which became the basis for the propaganda campaign at Crewe House. Wells thought the Germans would have to choose between their own permanent ruin, by adhering to the present system of government and the prospect of economic, and political redemption by overthrowing the militarist regime to join an Allied scheme for world organisation. It was therefore essential to announce Allied war aims and inform Germany of her destiny.⁷⁶

The notion of making a public statement as a warning to Germany, or to secure the co-operation of the United States in the 'economic defensive', or to reconcile Parliament to measures such as the Import and Export Prohibition Bill, had been considered reluctantly by British officials who were wary of anticipating Allied planning or encouraging German resistance. In October 1917, Clémentel proposed to President Wilson that such a statement should be made from the international perspective.

As soon as an agreement is arrived at, we must publicly, and solemnly declare to Germany that we will liberate the raw materials which are our property as soon as she will liberate the territories which she retains or occupies by force. Such action on our part will demonstrate to Germany and her Allies, that the Entente have at their disposal a most formidable weapon.⁷⁷

Since January 1918 Carson urged for such a statement from the British domestic perspective. Carson was of the opinion that the most important need at present was for the Government to decide upon the general principles of their economic policy and then make a "clearly reasoned and temperately worded statement of their intentions"

⁷⁵ M.L. Sanders and Philip M. Taylor, *British Propaganda During the First World War, 1914-18* (London, 1982) p.89.

⁷⁶ *Ibid.*, p. 236.

⁷⁷ CAB 27/15/EOC.3: 6 October 1917. The letter, like most appeals to Washington on the subject of economic war aims, went unanswered. See David Stevenson, *French war aims against Germany, 1914-1919* (Oxford, 1982) p. 85.

for the benefit of the British public, the Allies, neutral countries and the enemy. A clear and vigorous declaration would be a source of strength not of weakness.

Proceeding with proposals in a piecemeal fashion before the basis of economic policy had been decided, had created confusion and suspicion amongst the first three groups and had little moral effect upon the last. The guiding principle of policy was “reason and security, not sentiment or passion.”⁷⁸ However it was still thought desirable that any announcement should contain a threat as well as an offer. This meant having a functioning Allied economic bloc from which Germany could see she would be excluded.

In his speech at the farewell dinner of the International Parliamentary Commercial Conference in July 1918, Bonar Law stated that the Allied Governments were thinking of using the economic weapon. After outlining the use of economic force for winning the war and for reconstruction, he introduced another aspect which he declared was “not so safe to speak of.” He stated that if he were the ruler of Germany:

I would take up the map of the world, and go round the world. Beginning at China, Japan, India, and going West to the whole of the North American continent and the large part of the South American continent, the countries from which in the past the raw-materials of the world have come from, and I would say to myself, “What will be the fate of Germany if, as a result of our action, we are shut out from the economic rights of the world and our people are threatened as outcasts of humanity?”⁷⁹

Despite the rhetoric, such comments by Bonar Law were hardly an official annunciation of government policy. The *Globe* reported that the country had a tremendous weapon ready to hand if only the Government chose to use it. However,

⁷⁸ CAB 21/108/G-190: ‘Economic Offensive Committee’ by Carson, 21 January 1918.

⁷⁹ *The Daily Telegraph*, 6 July 1918. The Conference, held in London, attracted representatives from France, Italy, Japan, Brazil, Belgium, Portugal, China, Siam, Greece and Serbia.

up to the present, there were “very few indications that the Government either understood how powerful it is or have the will to yield it with determination and courage.”⁸⁰ The National Party, guided by figures such as Henry Page Croft,⁸¹ took matters into their own hands by organising ‘The National Boycott Pledge’ which declared:

Germany attaches no value to loss of life. Her only dread is loss of TRADE! Tell Germany now that for every month the war continues we will not buy German goods for a whole year. The Government refuse to use this deadly economic weapon. So WE - the PEOPLE - must!⁸²

The Government was challenged in the Commons to explain why they had apparently dismissed the power of a post-war economic boycott of the enemy as a means of bringing war to a satisfactory conclusion.⁸³ On 31 July, in a speech to the National Union of Manufacturers, Lloyd George warned Germany that the longer the war lasted, the sterner would be the economic terms imposed. He declared that essential industries would be maintained and Government controls would only remain for the transitional period, statements designed to appeal to his audience of trade warriors. However he qualified the warning to Germany by insisting that policy had to be in accordance with Britain’s Allies and the Dominions. As the United States had expressed no opinion on the Paris Resolutions, it was essential for both countries to

⁸⁰ ‘The Economic Front’ in *The Globe*, 25 July 1918.

⁸¹ Croft returned from the Western Front in August 1916 after figures such as Sir Henry Wilson thought he would make an effective advocate in the debate over manpower resources. In September 1917 he founded the National Party which had an extreme imperialist programme. He only returned to the Conservatives after the fall of Lloyd George.

⁸² *The Times*, 3 June 1918. Similarly it was reported from the United States that a new American League was being formed pledging members to refuse to trade with Germany for a minimum period of 25 years. By 15 July it had 12,000 members but it was hoped to extend this to 1 million by the end of the summer. *The Daily Telegraph*, 20 August 1918.

This notion of a self-implemented economic weapon caught on throughout 1918. On 1 July the Liverpool Cotton Association passed a Resolution which declared that no member should trade, directly or indirectly, with the present enemies of Britain for ten years after the conclusion of peace. Other trade associations followed with similar declarations.

⁸³ H.C. *Deb.* 26 June 1918. Sir R. Cooper. Bonar Law responded that there were no grounds for making such a statement.

agree over economic issues, and the partnership between the Allies and the Dominions must remain “cemented in blood.”⁸⁴

Page-Croft saw Lloyd George’s speech as the first indication that the Government would use the economic weapon and urged the declaration of a definite ‘a year for a month’ policy.⁸⁵ Yet it was revealing that in his speech Lloyd George attributed delay in economic action to absorption in the more immediate problems of winning the war, and the necessity of keeping in line with the Allies and Dominions. On the contrary, economic measures against Germany were advocated by many as measures of war, part of the great task of convincing Germany that her military aims during and after the war would only come at the expense of her economic position. Yet it would appear Lloyd George saw economic measures as only a secondary weapon in the struggle, or as a measure for pressurising Germany after she had been defeated by military methods. Similarly, there could be no effectual agreement with the Allies until Britain had first decided on a definite economic policy. In the absence of such a policy, planning amongst Britain, the Allies and the Dominions was condemned to remain inconclusive and ineffectual.⁸⁶

In January 1918 Edward Carson, chairman of the Economic Offensive Committee, reported that the Committee had reassessed its way of thinking on economic warfare. Originally the economic offensive had two aims with a view to shortening the war: Firstly, to inflict material injury on Germany to weaken her power to wage war and, secondly, to produce anxiety in the minds of the German Government and business community over the future of their trade, thus forcing them

⁸⁴ *The Times*, 2 August 1918.

⁸⁵ Letter from Page-Croft to the *Morning Post*, 8 August 1918.

⁸⁶ This point was not lost on Germans commenting on the speech “In his quite unfounded megalomania Mr Lloyd George threatens us not with half but with complete destruction unless we immediately with folded arms surrender...and he does this although he does not yet even know

to seek peace in order to prevent commercial ruin. It had become clear to the Committee that the direct material injury left to inflict on the enemy was limited and German anxiety over her commercial future would not be effective until she faced the prospect of military defeat. The EOC thus rejected the formula of threatening Germany with commercial boycott unless she made peace on Allied terms. If Germany suffered anything less than total defeat she would insist on the negation of such terms and if the Allies were totally victorious the imposition of such terms would prolong feelings of hostility beyond any peace treaty. Carson stated:

We strangely misinterpret the spirit of Germany if we imagine that a commercial boycott, or the threat of a commercial boycott, can ever become a substitute for victory in the field. I do, however, believe most firmly that, when the final issue of the stricken field begins to appear grave and doubtful to German eyes, the economic menace may then play a most important part in ending the war. But in order that it may play such a part the menace must have assumed a concrete shape.⁸⁷

By the end of the summer of 1918, the Allied forces had contained the Spring Offensive and it was hoped that the Germans might be vulnerable to suggestive Allied propaganda. In June Northcliffe circulated a scheme as the basis for British and eventually Allied propaganda in Germany. "Propaganda, as an active form of policy, must be in harmony with the settled war aims of the Allies."⁸⁸ He found fault with the proposed plan not to make any statement to the enemy regarding the economic weapon but merely to continue to make progress with its organisation. Northcliffe believed that British war aims, if presented in a suitable form, could do much to strengthen whatever 'opposition' existed in Germany. It was necessary to impress upon the Germans that the Allies possessed a determined and immutable will to continue the war regardless of German military successes and as a consequence would

whether America will join the League for the economic destruction of Germany." Article from the Berlin *Lokalanzeiger* quoted in the *Manchester Guardian*, 6 August 1918.

continue a ruthless policy of commercial blockade. For that reason military success was not the only way to bring about the peace they desired.

The German Government fostered the belief that any peace imposed by the Allies would mean the internal ruin of Germany. At present the Allies considered this could be avoided if Germany consented to accept the Allied scheme for a new organisation of the world. Yet until now, Northcliffe claimed, Allied policy and war aims had been too loosely defined to be comprehensible to the Germans and they had taken advantage of the inconsistencies. It was easy for the German regime to misinterpret British war aims in their own imperialistic vision of annexations and indemnities. The real object was to establish a 'League of Free Nations' in order to ensure future peace. Germany's admission to this League would guarantee against economic discrimination and Allied peace terms would be the condition for German entry. Economic benefits could only be secured by political conditions. Northcliffe advocated the issuing of a statement which would in effect be an offer of peace on stated conditions. If it was accepted Germany could join the new League after the war, otherwise the war would continue.⁸⁹ Instead of showing Germany what punishment she would receive if she did not come to satisfactory terms with the Allies it was preferable in propaganda terms to stress what she could gain.

Linking the economic weapon with a post-war world organisation was common but not always considered desirable. Clémentel suggested the ordering of the world economy in the common interest of all nations by the League of Nations. The machinery of Allied economic control could remain intact after the war for international use to secure the maintenance of peace. For France this was both as a

⁸⁷ CAB 21/108/G-190: 'Economic Offensive Committee' by Carson, 21 January 1918.

⁸⁸ CAB 27/44/EDDC.30: Northcliffe to Balfour, 10 June 1918.

⁸⁹ CAB 27/44/EDDC.30: Northcliffe to Balfour, 10 June 1918.

means of providing security against German economic domination within an international framework and assurance of access to world markets and resources.⁹⁰

Eustace Percy advocated a policy which was not dissimilar. He thought it is no longer a question of forming some narrow defensive alliance, but of laying down the economic principles for the Association of Nations which was now in existence.⁹¹

Hankey, the Cabinet Secretary, saw the nucleus of the machinery of a League of Nations in the political, economic and military organisations that existed to facilitate Allied co-operation. He thought such organisations should be more closely linked “with a view to the formation of a veritable League of Nations.” The whole economic offensive of the war could be brought under the control of the league which might also be used to conduct peace negotiations with the enemy. After the war the league could be converted from a wartime organisation to a peace-keeping instrument. Neutral countries and former enemies would be compelled to join due to the league’s overwhelming hold on the world’s economic resources.⁹²

Hankey’s plan merged the boundaries between a wartime league of free nations and a powerful economic coalition in the post-war period. This led to warnings that a clear distinction should be drawn between a League for the preservation of peace and a League for ensuring and regulating, for the benefit of the members, the supply and distribution of raw materials. Whether it was desirable or practical to deliberately establish a connection between the two was considered a matter of considerable debate.⁹³ Cadogan minuted that proposals with regard to raw materials were “not conducive to brotherly love as between the Allies and the present enemies and to that extent economic policy and the idea of a League of Nations are

⁹⁰ CAB 27/15/EOC.3: Clémentel on the economic offensive, 14 October 1917.

⁹¹ CAB 27/44/EDDC. 5: ‘Statement on our Economic Policy’ by Eustace Percy, June 1918.

⁹² CAB 24/39/G.T.3344: ‘The League of Nations, Observations by the Secretary’, 16 January 1918.

⁹³ FO 371/4367/ Minute by Crowe? July 1918.

incompatible.”⁹⁴ Maclay, the Shipping Controller, thought that unless a strong position was taken, controls might be carried on beyond a reasonable time by an ‘idealistic group’ who had visionary ideas of a League of Nations. Whilst he had nothing against the League of Nations as a political conception he was anxious lest the British committed themselves to any arrangements which involved the sacrifice of British economic independence.⁹⁵ Lord Parmoor was of the opinion, shared by many, that a league of nations and an economic boycott could not exist at the same time. The peace would either be permanent or punitive.⁹⁶ There was also a desire on the part of groups supporting a League to keep the idea of a league separate from the cry for a negotiated peace.⁹⁷

Eustace Percy and Alfred Zimmern, of the Foreign Office’s Political Intelligence Department, submitted a memorandum in response to the encouragement of Northcliffe. They declared there were two ways to win the war, either through victory on the field or by breaking down the determination of the German people to support their Government in its resistance to Allied demands. Current hopes and fears were vested in the High Command and the Allies had to give the Germans something to fear, which Ludendorff could not save them from, and something to hope for, which Ludendorff could not secure for them. One such fear was the economic predominance of the Allies and their control over world production and markets. Access to these was thought indispensable to the prosperity and survival of Germany as a civilised country. It was thought the Germans were impressed by force and not by the ‘shadowy sanction’ of a League of Nations. In this sense the programme of the Paris Economic Conference had come closer than Wilson and his pronouncements in

⁹⁴ FO 368/2030/f1540/110692: Minute by Cadogan, 14 June 1918.

⁹⁵ Lloyd George MSS F/35/2/89: Maclay to PM, 7 December 1918.

⁹⁶ *Daily News*, 21 October 1918.

influencing German opinion. Yet the Paris Resolutions had not been implemented and were a threat rather than a fact. What was needed was a policy with an “*absolute* and unalterable programme which is being in reality steadily and relentlessly carried through.”

Percy and Zimmern believed the best way to accentuate German fears in regard to economic conditions after the war would be to build up a unified and impenetrable system of control, during the war, over the commodities and services Germany would require. Instead of threatening to exclude Germany from such a organisation after the war, Germany would automatically excluded. Germans would then be concerned with the problem of how to gain access to supplies of raw materials, forcing them to face the political issues and confront Ludendorff. The work should be carried out without threatening references to Germany but important results could be announced by periodic Government statements which would convey fear by conveying the impression of concrete organisation and power.⁹⁸ Like Clémentel, Percy and Zimmern advocated developing the present Allied Programme Committees and Inter-Allied Executives into the machinery needed to form an economic association of nations during the reconstruction period.⁹⁹

Sir Eyre Crowe was in entire agreement with the venture and thought the issues raised would materially affect the question of how to bring about and organise peace. Hardinge minuted that it contained a definite policy for economic questions which was lacking at present and based on a picture of German mentality which he

⁹⁷ See George W. Egerton, *Great Britain and the Creation of the League of Nations* (Chapel Hill, 1978) p. 49.

⁹⁸ CAB 27/44/EDDC.31: Memorandum by Percy and Zimmern, July 1918.

⁹⁹ Clémentel believed his attempt to continue post-war economic collaboration between the Allies stood a good chance of success because it involved simply extending a system that already existed. See Trachtenberg, *Reparations in World Politics* (New York, 1980) p. 6.

believed to be accurate.¹⁰⁰ In summarising the scheme Cecil stated that economic policy for the reconstruction period should be worked out in closer agreement with the Allies, especially the United States, without any immediate reference to the question of the treatment of Germany after the war. That question should be left until such time as the Allies actually formed an economic bloc and had something collectively to withhold after the war.¹⁰¹ The development of a concrete organisation was essentially the same programme that Cecil and Carson had promoted ten months earlier and the issue of inducing nations into closer agreement had still to be resolved.

On 14 August 1918 a four day inter-Allied conference opened at Crewe House, chaired by Northcliffe, to examine measures relating to propaganda in enemy countries.¹⁰² The Policy Committee was in full agreement with the approach outlined by Northcliffe. The chief objective of the Allies was to change the political orientation of Germany not to destroy the German people. The latter could hope for an adequate position in the world and future admission to the society of nations once they had qualified by making reparations and overthrowing Prussian militarism. The Committee thought it expedient to make it plain to enemy public opinion both the principle of Allied economic action and their results as worked out in daily practice. They would stress the gravity of the danger which threatened the enemy and the advantages assured to those who were admitted to co-operation with the Allies. The Committee ended with the observation that the Allies had through joint economic action “begun to give effect to economic co-operation which is to-day a powerful

¹⁰⁰ FO 371/3474/f50910/125128: Minutes by Crowe and Hardinge, 17 July 1918.

¹⁰¹ FO 371/3475/f50910/144473: Cecil to Chamberlain, 9 August 1918.

The memorandum was sent to the EDDC who decided that the scheme should be worked out in greater detail by the Foreign Office. CAB 27/44/6th minutes of the EDDC, 13 August 1918.

¹⁰² Gary S. Messinger, *British Propaganda and the State in the First World War* (Manchester, 1992) p. 154.

instrument of war, and which may, after the war, serve as a basis for the systematic organisation of the resources of the world.”¹⁰³

Proposals for an Inter-Allied Conference on Raw Materials.

The various aspects of British planning for developing controls over supply condensed into the issue of an inter-Allied conference for the apportionment of raw materials.¹⁰⁴

The French had been advocating such a conference since April 1918.¹⁰⁵ The Foreign Office had turned down the suggestion on the grounds that in the first instance the question had to be discussed separately by each of the Allies. Replies to their overseas enquiries showed that the Allies had not made much progress with the matter.¹⁰⁶

However others in the Government were dismayed at the apparent lack of progress. In April Hardinge had written to Hankey to enquire whether the Cabinet had pronounced on the subject of financial policy after the war, with regard to the apportionment of raw materials. Hankey could only reply that the “position was far from satisfactory” but that he had brought the matter to the attention of the War Cabinet.¹⁰⁷ In general it

¹⁰³ CAB 24/61/G.T.5492: ‘Propaganda in Enemy Countries’ Report of the Policy Committee, August 1918.

¹⁰⁴ On 17 July 1918, the War Cabinet approved recommendations for preferential trade with the Empire but qualified this by stating that, in carrying out the policy, the Government would have careful regard to the interests of their Allies, especially those who had suffered special economic injury from the ravages of war. CAB 23/6/W.C.447.

¹⁰⁵ Georges-Henri Soutou, *L’Or et le sang, les buts de guerre économiques de la Première Guerre mondiale* (Paris, 1989) pp. 564-6.

¹⁰⁶ FO 368/2038/f39617/73055: Contrôle des matières premières. Proposition française en vue de la réunion d’une Conférence Interalliée, 23 April 1918.

Lord Bertie, the British ambassador to France, had suggested that the Permanent Economic Committee (largely a French body with Allied members attached) could be used to obtain from the French Government their views on the purchase and exchange of raw materials. FO 368/2038/f39617/41745: Bertie to Balfour, 2 March 1918.

¹⁰⁷ CAB 21/108: Hardinge to Hankey and reply, 25 and 27 April 1918 respectively. See also CAB 24/49/G.T.4368: ‘Economic Offensive Policy’ by Hankey, 27 April 1917.

was felt that any move would be premature until the Imperial War Conference had taken place.¹⁰⁸

Yet during the Imperial War Conference it had been noted that Dominion co-operation was also failing due to uncertainty over the position of the United States. The sessions on the raw materials question were proceeding less well than expected because Dominion ministers took the line that it was fruitless to discuss the matter unless they could be assured of the attitude of the United States.¹⁰⁹ In fact the Foreign Office thought the reverse should be the case. The United States, being in an earlier stage of war conditions than other countries, needed to have her ideas precipitated by a definite lead from the Allies. As the chief preoccupation in the minds of American businessmen was the prospect of gaining adequate quantities of materials from the Empire such as nickel, tin and wool, the necessary lead could be provided by the British Empire.¹¹⁰

Lord Reading, the British ambassador to Washington, attempted to induce the President's advisers (Baruch, McCormick and Polk) to take up the matter.¹¹¹ He informed London that although interest in the question was rapidly growing, for the moment, matters should be confined to informal discussions rather than an open invitation to a conference.¹¹² Lord Eustace Percy thought the Americans would take the initiative sooner if only the British Government would make some announcement of the principles on which their policy was based. Statements in the Commons by the

¹⁰⁸ FO 368/2038/f39617/68138: Minute by Cadogan, 19 April 1918 and Foreign Office to Cambon, 16 May 1918.

¹⁰⁹ The War Cabinet, commenting on Interim Report No. 5 from the EOC dealing with the control of raw materials, had first stressed the importance of assuring the co-operation of the United States. CAB 23/4/W.C.283, 27 November 1917.

¹¹⁰ FO 371/4360/209. Percy to Tyrrell. 29 June, 1918. The Washington correspondent of the *Morning Post* reported that US businessmen looked to England to take the lead, 4 July 1918.

¹¹¹ Bernard Baruch, head of the War Industries Board, Vance McCormick, chairman of the War Trade Board, Frank Polk of the State Department.

Chancellor of the Exchequer to the effect that the Government's policy over the Paris Resolutions remained unchanged could not fail but to create the worst impression in the United States, indicating Britain's continuing adherence to the Paris Resolutions and subjection to French policy.¹¹³ Percy believed real progress would only be made by more open discussion of British aims. As British policy was essentially in accordance with Wilson's pronouncements, Percy consistently advocated an early declaration of policy. "A declaration of complete agreement between Great Britain and the United States on the basis of the President's definition of the economic war-aims of the Allies is a weapon against Germany of the first magnitude."¹¹⁴

In early July Cadogan noted that the British were now ready for a conference and could not afford to wait any longer for US opinion to 'mature'.¹¹⁵ Cecil gave an interview with the American Press to clear the ground for negotiations with the Wilson administration. He stated that it was not a question of forming a narrow defensive alliance but merely defining the economic principles of the association of nations that already existed. Neither the United States or the British Empire had pursued a selfish policy and the economic door would be left open to a regenerate Germany. Cecil hoped that the Associated nations would soon meet to discuss mutual assistance for the purposes of reconstruction.¹¹⁶

The Foreign Office were pressed by the French, Italians and Belgians who had all taken up a reference made in the circular despatch of 23 May to a proposed inter-Allied raw materials conference and formally accepted the 'invitation'. Although the

¹¹² Similarly Tardieu, the French High Commissioner in the United States, resisted constant pressure from Clémentel to push the matter with Wilson. Tardieu advised the need for prudence during negotiations. See Marc Trachtenberg, *Reparations in World Politics*, p. 21.

¹¹³ FO 368/2038/f39617/84614: Reading (Washington) to Foreign Office, 10 May 1918 and minute by Percy, 14 May 1918. 106 H.C. *Deb.* 5s, col. 31, 13 May 1918.

¹¹⁴ FO 371.4360/81: 'The United States and the Economic Offensive' by Eustace Percy, 26 April 1918.

¹¹⁵ FO 368/2038/f39617/118611: Minute by Cadogan, 8 July 1918.

¹¹⁶ FO 395/224/f106497/119317: Foreign Office to Bayley (New York), 10 July 1918.

British had always intended to issue such an invitation in due course, this now reduced their capacity for manoeuvre. Co-ordination of policy with France was considered highly favourable in the Foreign Office. "There is scarcely anything more likely to produce a profound effect on the mind of the enemy" noted Wellesley, "than the conviction of the solidarity of the Allies as regards 'post-bellum' economic policy. It is an aspect to which too much importance can hardly be attached." Hardinge agreed, adding: "Solidarity with France in economic questions is essential after the war, and if we could bring in the United States also the position would be impregnable."¹¹⁷

Percy believed that to sap German morale the best propaganda was the actual convening of a conference at the earliest possible moment. However it was essential that Allied statesmen were ready to make the right kind of statements describing activities and policy which would consequently determine the whole course of diplomatic action to be taken both during and after the war and might very powerfully affect the length of the war. It was essential not to repeat the blunder of the Paris Conference or the semi-failure of the Imperial War Conference. Percy suggested a confidential preliminary conference, in the first instance, which would be non-committal in order to draw in the Americans. This would then pave the way for an official conference where public policy could be laid down. He suggested approaching Mr Summers, the representative of the US War Industries Board in Britain, to take charge of the work of the US sections of the Programme Committees and Inter-Allied Executive dealing with raw materials.¹¹⁸

¹¹⁷ FO 368/2030/f1540/105167: Minutes by Wellesley and Hardinge of 13 June 1918.

¹¹⁸ FO 368/2038/f39617/135555: Minute by Percy, 20 August 1918.

At this point, the host of committees and departments dealing with the subject appeared to overwhelm the Commercial Department of the Foreign Office. Cadogan was at a loss to say who was responsible for choosing the date of a conference or who had the final say in the matter. His superiors were similarly baffled. George Villiers, the head of the department, minuted: "We seem to be in a blind

The United States and co-operation over the control of raw materials.

In reality it was with the United States that the matter now rested. If Lord Reading's view was true and Britain could direct America in her economic planning, steps would have to be taken to bring this about. On hearing that Chandler Anderson, a representative of the United States War Board, had returned to Washington and proposed to secure the appointment of a committee to consider post-war economic problems, a telegram was drafted for Sir Richard Crawford, British commercial adviser in Washington, to direct him as to the line he should take. Cecil outlined certain points for the Foreign Office to bear in mind when dealing with the Wilson administration. Every care should be taken to avoid unnecessary controversy such as references to the Paris Conference and the Imperial Conference. It was unnecessary to emphasise the far-reaching nature of the Allied proposals. Only immediate steps essential for the policy needed to be pointed out. Any government would hesitate to sanction schemes which would establish a form of international state control of the whole social and industrial life of the Allies. Cecil himself felt that he could not support such a scheme, which he considered quite impractical. The most the British could hope for was the maintenance of the existing machinery of control of distribution forced upon the Allies by the shortage of shipping with such minor modifications and extensions as were necessary to complete it.¹¹⁹

alley. I don't know what to do or to whom to write: and I am ashamed to say I haven't the faintest notion who Mr Summers is, what he is doing in this galère or how to get hold of him." Victor Wellesley, the superintending under-secretary, commented: "The multiplicity of committees and individuals dealing with this vast subject is so great that I have not the foggiest notion of where or how we stand." Despite the prospect of loading the Political Intelligence Department with too much administrative work, Percy suggested the PID should deal with the subject given the confusion of the Commercial Department. FO 368/2038/f39617/135555: Minutes by Cadogan, Villiers, Wellesley and Percy, 20-26 August 1918.

¹¹⁹ FO 371/4367/f354/364: Minute by Cecil, 7 September 1918.

The telegram stressed that it was not at present the aim of Britain to formulate any economic terms of peace to be imposed upon Germany at the peace conference, nor was there any policy of boycott as a substitute for military victory. The aim was to consider, on their own merits, the needs of the Allied and Associated nations during the reconstruction period to forestall industrial dislocation and consequent social unrest. There was a moral claim to perpetuate in the reconstruction period co-operation in domestic matters which were now growing under the stimulus of war. The first step to returning to full, productive employment was to control raw materials and maritime transport to ensure Allied industries against shortage of supply and fluctuations in prices. Demands of neutral countries must be a material factor in all programmes and no opportunity must be lost of securing their adhesion to Allied economic partnership, if only for the purposes of widening the control exercised by that partnership over sources of supply.¹²⁰ Immediate Allied consultation was necessary to ascertain the basis for such a policy and to make practical proposals. Otherwise there stood the danger that individual members of the alliance might commit themselves prematurely to partial measures in the supposed interests of their own trade which were incompatible with the general interest of the Allies and likely to produce friction amongst them. In so far as Germany was considered at all, post-war economic planning was not primarily devised as a threat but could not help but have a powerful effect on German morale. It was felt impolitic to issue an invitation to America for an inter-allied conference on raw materials until after the November

¹²⁰ Yet Emmott warned that whilst he agreed in principle that the claims of neutral countries should rank next to the claims of the Allies, the experience during the war had shown that neutral countries were very ready to pass on to the enemy anything from which they could make a satisfactory profit. He doubted whether an avowed preference to neutral countries as opposed to enemy countries would be effective as a practical matter. Cecil MSS 51093: Emmott to Cecil, 24 January 1918.

election.¹²¹ Meanwhile, Crawford was to guide the work of the Americans in considering their post-war needs in detail and take every opportunity to prepare the mind of the President for the invitation to a conference to be issued after the election.¹²² In the Commercial Department, Tufton noted dryly on the fate of the Conference: "We are, I believe, still waiting for opinion in the United States to mature."¹²³

In attempting to draw the Americans into planning for the control of Allied raw materials, it was the Wilson administration and not Germany that had become the focus of British propaganda. Cecil advocated conducting propaganda as was possible in the United States with a view to influencing public opinion and government officials alike. Such statements should be worded with great care, taking into consideration American susceptibilities, and disclaim any intention of contemplating a trade war as a substitute for military victory.¹²⁴ In an attempt to court Wilson's agreement, British officials contemplated relinquishing the very measures through which they hoped to pressurise Germany once the Americans were on-side. Percy advocated a statement on economic policy declaring explicitly that the Government did not intend any special discrimination against her present enemies in sharing the world's resources in the event of a satisfactory and just peace.¹²⁵ He also thought they should also agree with Wilson that most-favoured-nation treaties should be universal in application if economic jealousy was to be avoided.¹²⁶ Finally, the Government

¹²¹ The French had made a formal request for such a conference back in April but had met with little response. Tardieu, the French High Commissioner to Washington, reported that Wilson feared the issue would be divisive in Congress. See David Stevenson, *French war aims against Germany, 1914-1919*, p.109.

¹²² FO 371/4367/f354/354: Cecil to Crawford, 21 September 1918.

¹²³ FO 368/2039/f39617/165637: Minute by Tufton, 3 October 1918.

¹²⁴ CAB 27/44/EDDC.37: 'Inter-Allied Control of Imports' by Cecil, 10 September 1918.

¹²⁵ Crowe thought this went too far, questioning whether Britain should be bound to guarantee supplies to her present enemies if there was not enough of a certain commodity to go around.

¹²⁶ Crowe doubted whether such a pledge should be volunteered and Cecil agreed.

should assure her Allies that they had no policy of colonial economic exclusion with the non-self governing possessions.¹²⁷

In the event British efforts were in vain. Crawford could only report back, after discussions with American officials on the subject of the allocation of raw materials, that the President was not sympathetic to the idea of a formal inter-allied conference. In fact he was further than ever from entertaining it.¹²⁸ With the end of military hostilities only days away Cecil attempted a last effort to persuade Wilson towards British thinking. It was obvious that Wilson was still unsure as to whether economic pressure was a legitimate war measure. Cecil backtracked, stating that it was of less immediate importance to secure a formal conference on raw materials than to secure Wilson's approval for the continuance and adaptation of existing economic machinery during the Armistice period. This was not only for the purpose of supplying the Allies but also for supplying the liberated territories, for controlling enemy purchases abroad in the same way Allied purchases were controlled, for directing enemy shipping in the common service and for providing better machinery than the blockade for controlling purchases and imports into European neutral countries. If this economic machinery existed, raw materials would be almost automatically considered.¹²⁹

With the conclusion of the Armistice Wilson remained steadfast in his view but not necessarily because he entertained any suspicion that British proposals aimed at an economic boycott of Germany. He felt that each of the Associated governments should approach the peace table with an open mind on the question of raw materials.¹³⁰ At meetings of the Supreme War Council Bernard Baruch, head of the US War Industries Board, stated that the continuation of controls on raw materials

¹²⁷ FO 371/4367/f354/408; Minutes by Percy, Crowe and Cecil, 2-5 October 1918.

¹²⁸ FO 371/4367/f354/515; CAB 27/44/EDDC.66: Crawford to Cecil, 6 November 1918.

¹²⁹ FO 371/4367/f354/516; CAB 27/44/EDDC.67: Cecil to Crawford, 9 November 1918.

¹³⁰ FO 371/4367/f354/557; CAB 27/44/EDDC.74: Crawford to Cecil, 18 November 1918.

could not have American approval without the sanction of Congress. American business opinion also opposed the extension of controls, correctly in his view, beyond the end of the war.¹³¹ Walter Long felt that the resolutions passed at the Imperial Conference in 1918 were lost sight of as a result of the changed conditions which followed the Armistice.¹³² Without any centralised control world trade in raw materials reverted in the main, as Baruch observed, “to the system of automatic distribution under the principle of relative economic attractive power.”¹³³

Conclusion.

The sudden capitulation of Germany rendered planning for an wartime economic weapon, controlling supplies of vital commodities, redundant overnight. There was little indication before October 1918 that a decisive victory would be achieved before the end of the year.¹³⁴ In July 1918 the Supreme War Council reported that the processes necessary for transforming the present military situation into one of complete victory for the Allies were inevitably slow and laborious and could hardly reach their culmination before the end of 1919. They envisaged decisive action in

¹³¹ Jean Monnet commented: “Intrigues by American exporters induced the United States government to rob all these [wartime] agreements of their substance; lists of exceptions made the whole organisation useless.” *Memoirs*, p. 73. Quoted in Walworth, *Wilson and his Peacemakers* (New York, 1986) pp. 164n and 169.

¹³² Walter Long, *Memories*, (London, 1923) p. 243. The drive and commitment of both Long and Hewins were undoubtedly lost when they left the Colonial Office in January 1919.

¹³³ J. Hurstfield, ‘The Control of British Raw Material Supplies, 1919-1939,’ *Economic History Review* XIV (1944) p. 6.

¹³⁴ A conference was held at Balliol College, Oxford on the last weekend in September 1918 to consider inter-Allied economic problems in relation to war and during the transitional period. Those present included Percy, Zimmern, R.H. Brand and J.M. Keynes, ‘thinking’ men within the British wartime administration. It was recognised that German access to raw materials would be a central point in peace negotiations. If the peace was inconclusive it was essential that inter-Allied machinery should be kept as without it no boycott of Germany could be effective. Even at this late stage in the military conflict the prospect of an end to hostilities, let alone the assurance of an Allied victory, was not prevalent in official thinking. Zimmern MSS 80.

1920 and a defensive action until July 1919.¹³⁵ By September they were a little more optimistic, believing that by the spring of 1919 Allied superiority in men, tanks, aeroplanes and other materials would “justify the expectation of a great success, which would be capable of being exploited to the extent necessary to bring about a final decision.”¹³⁶ Nevertheless, although the opportunity to develop the economic weapon as an alternative strategy to military victory was no longer an issue, it could still be used as a coercive instrument during the armistice period.

¹³⁵ CAB 25/122/SWC.280: ‘How are we to win the war in 1919?’ 20 July 1918.

¹³⁶ CAB 25/84/SWC.320: ‘General Military Policy of the Allies for the Autumn of 1918 and for the year of 1919’, 10 September 1918.

VIII

The Armistice, trade and the economic boycott.

By the time of the Armistice, the Allied system was working efficiently for the supply of food and it had begun to work for munitions but crucially, was still in the preparatory stages for raw materials for civilian use. In a sense the Armistice came too soon for the full application of the international principle to be achieved. Arthur Salter thought that, if the war had continued, the real and crucial test would have come in the spring of 1919.¹

The fate of Allied controls over raw-materials during the Armistice.

By the end of October 1918 the Political Intelligence Department had prepared a paper outlining detailed suggestions for the future of inter-Allied economic machinery. By this time it was recognised that the military situation had fundamentally altered. With the prospect of a peace near at hand the problem of exercising economic pressure on Germany receded into the background. However the memorandum identified several reasons for increasing the efficiency of inter-Allied economic organisation.²

¹ Arthur Salter, *Allied Shipping Control* (Oxford, 1921) p. 176.

² The memorandum advocated the formation of a General Economic Board as supreme authority over the whole Allied economic organisation. The Board would take over much of the functions and machinery of the Allied Maritime Transport Council. A new Raw Materials and Finance Council would be established but should be purely technical administrative bodies, along with the Transport, Food and Munitions Councils. After the termination of hostilities the Raw Materials Council and the Munitions Council could be amalgamated. The existing Executives for wheat, meat and oil seeds could remain as single buyers in the world market on behalf of the Governments. What was envisaged was a loose organisation providing the mechanism for consultation rather than limiting freedom of action by individual governments.

The continuation of such organisation was needed to maintain pressure on a recalcitrant Germany during the preliminary period following the termination of hostilities. Any supplies allowed to Germany should only be at the dictation and control of the Allies. All German competition with Allied purchasing organisations must be eliminated. Still further, it was thought necessary not only to continue the controls exercised through the blockade and inter-Allied organisation but also to extend them in order to counter the inevitable surge in the activities of private neutral firms in primary markets following the end of hostilities. It was recommended that, in the case of the more important controlled commodities, the British Empire and the United States should declare before the termination of hostilities that they would not allow any purchases, during the period of transition, in their markets except through Allied control, to which neutrals would be invited to adhere.

Yet there were certain features of existing organisation in which the Government would not be able to acquiesce on account of British interests. With regard to raw materials the British Empire should maintain the right to produce and satisfy its own needs. Whilst it would be unwise to claim an absolute prior right in respect of the produce of the Empire, British representatives on inter-Allied bodies should be instructed to reserve in practice a more ample share than Britain was able to obtain during war-time conditions.³

Soon after the Armistice the War Cabinet considered and approved the proposal.⁴ The Government communicated the scheme to the French, Italian and

³ CAB 27/44/EDDC.51: PID memorandum on inter-Allied economic organisation after the war, drafted by Percy, 21 October 1918. In the EDDC Churchill, the Minister for Munitions, expressed himself in favour of the proposals as did Lord Crawford (responsible for wheat supplies) and Major Astor (Minister for Food). CAB 27/44/Minutes of the 15th meeting, 5 November 1918.

⁴ CAB 23/8/W.C.501: 13 November 1918.

United States Governments.⁵ However the latter felt that wartime bodies should be discontinued and new organisations formed when it was found necessary to deal with problems arising after the suspension of hostilities. These organisations would not be part of a pan-Allied economic system but individual bodies responding to specific problems. Such bodies would preferably either be American-led or exclude America altogether.

Herbert Hoover, the chairman of the American Food Administration and Wilson's chief economic adviser, was one of the fiercest critics in the United States of any continuation of inter-Allied co-operation.⁶ He stated categorically the American position in November 1918, that the United States Government would

not agree to any programme that even looks like inter-Allied control of our economic resources after peace...the same applies to raw materials. Our only hope in securing justice in distribution and proper return for the service that we perform will revolve complete independence of commitment to joint action on our part.⁷

Hoover's narrow economic nationalism was inspired by suspicion of the Allies and a desire to maintain American economic independence which he correctly saw as powerful enough to allow the United States to exert pressure on Allied leaders. In following this line, Hoover was drawing American commercial power alongside, rather than integrating it with, Allied economic power. Whilst the British were willing to subsume, albeit it in many cases reluctantly, control of imperial raw materials and

⁵ The French considered the continuation of wartime controls on shipping, food and raw materials essential. This was no longer in any attempt to regulate the world economy but merely to prevent economic disaster. If France was left to fend for herself in an unregulated world market her industrial reconstruction and social stability would be seriously threatened. See David Stevenson, *French war aims against Germany, 1914-1919* (Oxford, 1982) pp. 148-49, G-H Soutou 'The French Peacemakers and Their Home Front' in *The Treaty of Versailles*, Boemeke et al (eds.) (Cambridge, 1998) pp. 171-2, Marc Trachtenberg, *Reparations in World Politics: France and European Economic Diplomacy, 1916-1923* (New York, 1980) pp. 29-39.

⁶ See Herbert Hoover, *The Memoirs of Herbert Hoover* (London, 1952) pp. 278, 291-2, 422-3.

⁷ *FRUS 1918 The World War* (Washington D.C., 1925-33) Supplement I, Volume 1, pp. 616-7, 7 November 1918.

shipping to the continuing Allied cause of reconstruction, the Americans were more reluctant. In this sense America's adoption of the title of 'Associated' Power was apt.

John Foster Dulles, an American counsel on the Reparations Commission, stated that at

the peace conference the economic power of the United States must be entirely unrestricted, as this force in our hands may be a powerful assistance in enabling us to secure acceptance of our views. If any international economic control is to be maintained after the peace this will be decided at the peace conference. We must not, even by implication, be committed to it now.⁸

Not all in the Wilson administration shared Hoover's views. Secretary of State Lansing qualified this policy of scrupulous avoidance of commitment. He considered it important to prevent any serious breakdown in the spirit and practice of inter-allied co-operation before the conclusion of the peace conference. The creation of a League of Nations must not be jeopardised by the international jealousy and mistrust which would occur if the United States were to abandon participation in the blockade organisation.⁹ Frank Polk, of the State Department, warned Hoover "not to start a fight with the British by attempting to take the lead and ignoring existing organisations." Vance McCormick, the chairman of the War Trade Board, thought that there should be as little disturbance as possible to an economic organisation prior to the peace conference. He asked the president to stress to Hoover the importance of working with the Allies, but to little avail.¹⁰

⁸ Quoted in C. Paul Vincent, *The Politics of Hunger: The Allied Blockade of Germany, 1915-1919* (Athens, Ohio, 1985) p. 118, n. 21.

⁹ *FRUS. Paris Peace Conference* (Washington D.C., 1942-47) vol. 2, p. 737. Lansing to Sharp. 19 November 1918.

¹⁰ Both quotations come from Arno J. Mayer, *The Politics and Diplomacy of Peacemaking* (New York, 1967) pp. 275-6.

The re-emergence of Anglo-American trade rivalry.

The attempt to continue Allied economic co-operation was not aided by a polarisation of Anglo-American relations.¹¹ As we have seen, the Washington administration introduced wartime changes designed to shift the American economy to work co-operatively and bring about the efficient and systematic marketing of American goods overseas in order to find an outlet for the surplus of production the domestic market could no longer absorb. The extension of the American system of finance, the repeal of anti-trust legislation and the organisation of shipping were indicative of this effort.¹² Overt rivalry had been held in check by Washington and London due to the common desire to win the war, but the Armistice signalled a weakening of the co-operative wartime spirit. Clémentel asked himself whether it was not Germany but the uninhibited productive power of the United States against which Allied industries needed protection. Nevertheless, under the protection of French military occupation, French businessmen were evading German import tariffs and flooding the Rhineland with goods in an attempt to reorientate its trade.¹³

To the United States, foreign markets were the difference between depression and prosperity but to Britain they were a matter of survival.¹⁴ The economic outlook for Britain after the war was uncertain. Ramsay MacDonald believed the post-war industrial situation would be critical. Britain, he explained, would not just be competing with Germany who was already well down the road to bankruptcy:

¹¹ Trachtenberg claims that French planning for reconstruction based on inter-Allied co-operation was crushed between Anglo-American rivalry. See *Reparations in World Politics* pp. 23-25.

¹² For detailed examination of this Organization see Kaufman, *Efficiency and Expansion: Foreign Trade Organization in the Wilson Administration, 1913-1921* (London, 1974) esp. pp. 179-228.

¹³ Arthur Walworth, *Wilson and His Peacemakers* (New York, 1986) pp. 314-15 and 266.

¹⁴ Michael D. Goldberg, 'Anglo-American Economic Competition, 1920-1930,' *Economy and History*, 16 (1973) p. 20.

But we have to compete with neutrals and with America in particular, and America is piling up colossal resources and capital which will be spent immediately peace comes for the purpose of maintaining the markets she has got and of extending them in every possible way.¹⁵

For their part, American businessmen argued that European manufacturers had benefited from the experience of highly efficient industrial war production. They feared that increased centralised control of the economy, the use of the latest labour-saving machinery, the training of a new female workforce and the return of men drilled with discipline to the workplace would make for formidable competition. It was thought that Britain and the United States would be logical and vigorous competitors for the world's colonial and Far Eastern trades. The United States, by reason of her supplies of raw materials, exportable surplus of merchandise, merchant marine and financial resources should have the better of the competition as America would be economically independent of Britain. The latter would still be dependent on America for supplies of food and commodities such as cotton, oils and copper. The interests of the United States would be best safeguarded by complete liberty of action as regards trade and a non-committal policy regarding the distribution of raw materials controlled by America.¹⁶

Similarly on the British side, trade warriors such as Vincent Caillard of the Federation of British Industries, wrote to the Government urging that restrictions upon the export of raw materials from the British Empire should be retained after the war with a view to striking the best possible bargain with the United States Government over commercial matters. He stated: "This Government and this country has the control over many important materials which are essential to American industry, and the restriction of the supply of these to the United States would be a most powerful

¹⁵ 90 H. C. *Deb.* 5.s. col. 345, 12 February 1917.

¹⁶ *FRUS. Paris Peace Conference*, vol. 2, p. 729, McFadden (War Trade Board), 9 November 1918.

weapon in our hands.”¹⁷ Sir Joseph Maclay, the Shipping Controller, thought prolongation of inter-Allied arrangements would only have the effect of giving the other Allies cheap materials at the expense of the British Empire without any reciprocal treatment. They would enable the Allies to compete with Britain in the future in a way they had never previously been able to and also restrict prices for imperial products.¹⁸

In the closing weeks of hostilities the Foreign Office displayed awareness of these re-emerging rivalries. They thought that the present economic organisation bred irresponsibility in the French and Italian Governments at the expense of Britain. The French and Italian supply programmes were drawn up and passed irrespective of France's or Italy's ability to carry or pay for the goods demanded. Britain provided much of the material for the programmes as well as the bulk of the shipping and the funds to finance them. The United States financed little more than that part originating from America. If during the period of reconstruction France and Italy continued to rely upon indefinite assistance from Britain, a return to the normal basis of trade would be impossible. At present the Allies had the first call upon the resources and raw materials of the British Empire to the detriment of the British export trade. Whilst it would be difficult for Britain to refuse all aid to the Allies, it was imperative that some realism with respect to ability to pay and transport be gradually introduced. In the case of the distribution of raw materials under British control, the reconstruction needs of France and Belgium would call for constant consideration and the Commission Internationale de Ravitaillement would presumably remain for this purpose.

¹⁷ CAB 21/108: 20 December 1918.

¹⁸ Lloyd George MSS F/35/2/89: Maclay to PM. 7 December 1918. He added: “The sooner this country gets unshackled from all control the better. There is practically nothing we can get from any nation and everyone is out to see what he can get out of us.”

The Allied purchasing council, the Commission de Ravitaillement, came in for criticism for being too much under the influence of foreign governments.¹⁹ The tendency to place so large a part of Britain's export trade to the Allies under the control of those governments was an undesirable result of the establishment of the CIR. It gave foreign governments too great an insight into British channels of trade and placed in their hands information which, with highly protectionist tendencies, might be used to the detriment of British trade in the future.²⁰ There could be no indefinite obligations regarding the supply of raw materials from the British Empire for the benefit of the Allies.²¹ British needs could amply be provided for, but to be bound to France and Italy in any form would be detrimental to British industry and trade. Britain had thrived in the past because of her independence and no good would come from further Allied control of commodities.²²

For many business groups this was a not altogether unwelcome as the prospect of continued governmental controls after the war was unpopular. The two factors underpinning the defensive elements of economic planning were fears of a shortage of raw materials and shipping in which to transport them. However, it was becoming obvious to some that the shortages of many raw materials would not be as great as anticipated, providing the transport was available.²³ Far from denying Germany raw materials, a report by the Supreme War Council found that Allied Governments were

¹⁹ Soon after the outbreak of war, in August 1914, the CIR was set up in London. Despite the name it was essentially a British organisation for co-ordinating the purchase of British materials for the Allied war effort. It contained representatives of the Allied purchasing departments who placed requests for supplies from Britain largely using British credits.

²⁰ Emmott MSS 6: 'Departmental Demobilisation' Notes by Lord Emmott, 27 March 1919.

²¹ FO 371/4367/f354/481. PID memorandum on inter-Allied economic organisation after the war, 21 October 1918.

²² Lloyd George MSS F/35/3/23. Maclay (Shipping Controller) to PM. 13 June, 1919. Maclay added: "The French are too clever for us. They never give anything away and if they do not get in at the front door they try the back door and if they do not get in there they try a window."

²³ Cecil MSS 51072: Long to Cecil, 15 November 1918.

all hoping to dump their unwanted stocks of war materials on Germany.²⁴ At the same time the concern over shipping was also being questioned. Maclay, the Shipping Controller, was confident that within a short period after the cessation of hostilities the supply of tonnage would be equal to any real demand and there would be no need to maintain Government controls either for the purpose of ensuring essential supplies or in order to keep down freight rates.²⁵ Thus, the whole rationale behind the need for continued control was being undermined.

Shortly after the Armistice, Addison stated that the return to normal trading conditions in which individuals, and not the state, were the purchasers, and in which competition in the export trade reasserted itself, could not be delayed indefinitely. He would not do more than suggest that a policy of converting Programme Committees into Executives was likely to be fraught with serious danger. It was still far from clear that the colonies and dominions or the United States could be persuaded to continue the existing system of export under licence. It was not clear that the British manufacturers would content themselves with a ration of raw materials largely determined by an international body. Addison suggested making generous allowances

²⁴ FO 382/2314/f297/60647: Report to the Raw Materials Section of the SWC on German Rations for the principal raw materials, April 1919.

A memorandum by the Ministry of Munitions stated that world stocks of raw materials were, in the majority of cases, not too great for world needs. It was the distribution which was abnormal with surplus supplies in Allied hands and the Central Powers bare. It suggested German demand could be relieved by a direct arrangement with Allied Governments in which the latter would provide monthly shipments of raw materials. The instability caused in Allied countries by the disposal of abnormal stocks would be alleviated and prices would stabilise in accordance with market demand. German production could also be restarted at the earliest possible moment. Materials for consideration were all former contraband wares: wool, cotton, linen, jute, hides and leather, iron-ore, non-ferrous materials, nitrates, pyrites, sulphur and glycerine. See MUN 4/3491: 'Supply of Raw Materials to Germany', 24 May 1919.

²⁵ CAB 27/44/EDDC.50: 'Extension of Inter-Allied Organisation' by the Shipping Controller, 21 October 1918. Maclay was worried over commitments for the control of imports/exports and the significance which may not be realised at the time but regretted later.

for the needs of the Allies, just as some allowance should be made for the needs of the enemy, but in both cases he deprecated commitments of too great definiteness.²⁶

The continuance of the blockade during the Armistice period.

The failure of the attempt to convene a conference on raw materials meant that the likelihood of the Allies using the control of supplies as a weapon to constrain or cajole the enemy was remote. With demobilisation beginning in earnest, the blockade was left as the only effective means of exercising any control over Germany. On the eve of the armistice, in early October 1918, British, French and Italian leaders met in Paris and used the opportunity to produce draft armistice terms. At these discussions Lloyd George advocated the continuance of the blockade beyond any armistice. This satisfied the dual aim of ensuring German compliance through non-military methods and satisfying the protectionist lobby at home.²⁷ Lloyd George used clause 17 of the terms drawn up at Paris, concerning the prolongation of the blockade, to deflect attacks from right-wing protectionists in the Imperial War Cabinet. William Hughes, the Australian Prime Minister, suggested that a western armistice should contain clauses to protect imperial economic interests just as the Treaty of Brest-Litovsk had contained clauses to safeguard German economic interests in eastern Europe. Lloyd George assured delegates that clause 17 would provide a lever for the enforcement of these conditions without the need for a renewal of hostilities.²⁸

At the Armistice Day War Cabinet, despite receiving reports warning of food shortages in Germany, Lloyd George stated that the blockade was really 'rationing'

²⁶ CAB 29/1/P-33: Memorandum by the Board of Trade on Economic Considerations Affecting the Terms of Peace - Annex 18, 28 November 1918.

²⁷ Minutes of an International Conference at the Quai d'Orsay, Paris, 7 October 1918. Quoted in D. Newton, *British Policy and the Weimar Republic, 1918-1919* (Oxford, 1997) p. 149.

and must be kept up.²⁹ Article XXVI of the Armistice subsequently stated that: “The existing blockading conditions set up by the Allied and Associated Powers are to remain unchanged, and all German merchant ships found at sea are to remain liable to capture.” The provisioning of Germany during the Armistice was left to the discretion of the Allies and the United States.³⁰ The Allies were fearful of a revival in German military strength if supplies were freely admitted to the Continent and did not want Germany to use gold and securities as payment for imports which might otherwise be used to finance reparation payments to the Allies.

On the day of the Armistice the Minister for Blockade, Laming Worthington Evans, circulated a memorandum concerning the change in circumstances.³¹ He recommended that the list of prohibited items be re-examined, and all articles be removed unless they were necessary for military reasons, or subject to shortage, or if their export was thought generally undesirable. Where shortage of material was relative, not absolute, reliance could be placed on priority regulations to decide. Whilst the removal of articles from the prohibited list appeared a liberal concession, the list of exceptions to the rule was probably enough to render the action little more than a gesture. However Worthington Evans went on to recommend that the rationing of neutrals be re-examined with a view to increasing their supplies. He thought that the Statutory List should be retained for certain classes but that the importance of the general Black List in preventing contraband was probably outweighed by the advantage of removing this obstacle to export trade. It should be retained only for enemy firms or firms whose records showed they could not be trusted and should only

²⁸ IWC minutes, 11 October 1918. Quoted *ibid.*, p. 157.

²⁹ CAB 23/14/WC.500B: 11 November 1918.

³⁰ A joint memorandum by the Foreign Office, Director of Military Intelligence and the Director of the Intelligence Division of the Admiralty concluded that the provisioning of a beleaguered fortress was forbidden during an armistice and there would be no question of raising a maritime blockade. See FO 371/4367/f362/362.

be enforced with a refusal to grant licences for export, not with regard to granting financial facilities or allowing imports from such firms.³²

Yet the blockade was actually strengthened with the entry of the British fleet into the Baltic. It was now possible, for the first time, to directly prevent ships travelling to and from Germany across the Baltic. This could be used to prevent exports from Germany and to secure Allied predominance in Scandinavian markets. If exports from Germany could not be prevented altogether, owing to the necessity of allowing her to pay for imports considered necessary, German exports should be confined to raw materials such as coal, with manufactured goods being absolutely excluded. The Minister of Blockade argued that the blockade had attained its object and that it was impolitic to introduce a new form of pressure at the present juncture and that blockade pressure could not be fruitfully employed for trade purposes.³³ However in February 1919 French destroyers sailed into the Baltic, stopping all coastal trade and ordering the German fishing fleet back to port. With the Allies having decided not to occupy Germany militarily and with demobilisation continuing apace, the blockade was the only weapon left to the Allies to ensure German compliance.³⁴

By early 1919 there was a desire by manufacturers and merchants to allow unlimited quantities of goods to go to neutral countries contiguous to Germany.

³¹ Evans, a Conservative MP, had been controller of the Foreign Trade Department of the Foreign Office during 1916.

³² CAB 27/44/EDDC.71: 'Blockade and trading with the enemy policy as it concerns exports and trading with neutrals' by Worthington Evans, 11 November 1918.

³³ CAB 21/108/EDDC.73: Memorandum of 20 November 1918; CAB 27/44: Minutes of 17th meeting of the EDDC, 20 November 1918.

³⁴ Avner Offer, *The First World War: An Agrarian Interpretation* (Oxford, 1989) pp. 383-4. Offer believes that after the Armistice the blockade became decisive. In the ensuing diplomatic struggle the food blockade, he argues, finally forced the surrender of Germany and her signature of the Treaty of Versailles. pp. 77-78. The continuance of the blockade, especially of foodstuffs, also robbed the Allies of their moral supremacy in Germany, making it easier for the Germans to reject the eventual peace settlement.

For the politics behind the continuance of the blockade on foodstuffs see C. Paul Vincent, *The Politics of Hunger: The Allied Blockade of Germany, 1915-1919* (Athens, Ohio, 1985) pp.77ff.

Auckland Geddes warned that a heavy responsibility lay with those officials who administered restrictions and controls, for if they exercised their powers unwisely, they could damage the basis of Britain's national prosperity beyond repair.³⁵ Mr Edgcumbe, head of the War Trade Statistical Department, proposed a plan to ration Germany until peace was signed, which he considered preferable to allowing Germany to be supplied via neutrals. Rather than profiting the entrepôt trade of neutrals, direct British trade would be reopened with 100,000,000 potential purchasers. Rationing would ensure the charging of reasonable prices without the neutrals making large 'middlemen' profits at the expense of potential German reparation funds. The Allies would know exactly how much of a commodity had been imported into Germany and goods could reach all provinces, not just the border or richer regions. Direct supply could be organised through the Allied Control Board, allowing pressure to be retained over Germany until suitable peace conditions were obtained. It would allow Germany enough scope to reorganise her industries in order to pay an eventual reparation whilst allowing British trade to widen its scope for export.³⁶

At a meeting held on 17 January to discuss the proposals, the Board of Trade and the War Trade Department were in favour but the War Office, Foreign Office, Admiralty and the Restriction of Enemy Supply Department were against. Nevertheless, Arthur Stanley, President of the Board of Trade, took it upon himself to send a memorandum to the War Cabinet and to Lloyd George in Paris to push the proposal. A very limited list of free articles had been issued by the Blockade Committee but the cautiousness with which they proceeded meant that no substantial

³⁵ Lloyd George MSS F/17/5/28: 'Draft Report on the Rehabilitation of Trade' by Geddes, 7 March 1919.

³⁶ FO 382.2336/5377: 'Memorandum on the continuance of Blockade until Peace' by Edgcumbe, 8 January 1919.

increase in freedom for the export trade of Holland and Scandinavia could be looked for without a definite change in Government policy. Under present conditions there was no prospect of any effort being made either to regain Britain's pre-war position in those countries or to secure trade formerly in German hands.

Stanley suggested that the time had come when regulations designed to prevent manufactured goods reaching the enemy via neutral countries could be safely suspended. He proposed that the Allies approach the problem of the blockade from a reverse angle: "i.e. that they should not seek to determine what specified articles can with absolute safety be allowed to be exported to the European neutrals without guarantees but rather what articles it is so essential to keep out of enemy hands that the whole complicated system of guarantees rationing and licensing *must* be maintained in regard to such articles." He went on :

I believe that if a sturdy common sense is applied to the consideration of this question, a very limited list of articles will emerge, and should such be the case there is no doubt whatever that the greatest possible benefit will result to the trade of this country and a very substantial step will have been taken to promote that feeling of absence of restraint and freedom from control which is the very life-blood of business.³⁷

Undoubtedly alarmed by Stanley's action, Cecil Harmsworth, under-secretary of State for Foreign Affairs, and representatives of the dissenting departments held a meeting at the Foreign Office. All agreed that the blockade was the principal means to control Germany and that once it had been disbanded it would be difficult, if not impossible, to re-impose. They countered the Treasury's wish for the immediate export of accumulated stocks in Britain to the northern neutrals to help the exchanges by stating that the desire for increased trade could largely be met by increasing the rations to the northern neutrals. It was decided that "the volume of trade affected by

³⁷ CAB 24.73/GT.6682: 'Export Restrictions to "Blockade" countries' by Stanley, 18 January 1919.

the blockade, however important, is not important enough to constitute in itself a deciding factor.”³⁸ A memorandum was drafted by Harmsworth embodying the sentiments of the meeting. It was pointed out that the blockade was the most effective weapon left to secure an early peace and obtain suitable peace terms. It was added that the blockade ensured co-operation, and that the abolition of restrictions would lead to fierce trade competition amongst the Allied and Associated Powers, which was not conducive to presenting a united front at the Peace Conference.³⁹

The General Staff produced a memorandum of their own stating that the announcement of relaxed restrictions would have a prejudicial effect on the troops. The blockade was the one weapon left, without further bloodshed, to ensure adherence to the Armistice terms and to obtain an early peace. It would also enable a reduction in the army of occupation which was a considerable financial burden to the Treasury.⁴⁰ This was sent, along with Harmsworth’s memorandum, to Paris on 20 January to ensure that “both sides of the question were adequately heard.”

In response Lord Emmott, director of the War Trade Board, entered the debate in what was now clearly inter-departmental skirmishing. He questioned the fundamental assumption of the Foreign Office and the Service Departments that the continuance of the blockade was the only weapon for controlling Germany. He thought that partial supply with the threat of complete stoppage was as efficient a weapon as absolute shortage, to which the German people had already become accustomed.⁴¹ German purchasing power could be restricted by undertakings that they were not to sell securities to fund imports. He took issue with the Foreign Office

³⁸ FO 382/2336/10278: Meeting held at the Foreign Office under Harmsworth on 18 January 1919.

³⁹ FO 382/2336/11214: ‘Memorandum respecting the Continuance of the Blockade,’ 20 January 1919.

⁴⁰ Ibid., ‘Memorandum embodying the views of the General Staff respecting the continuance of the Blockade’ by Major-General Thwaites, 20 January 1919.

⁴¹ Such a view was also shared by Hoover. See ‘Economic Administration during the Armistice’ by Hoover in *What Really Happened at Paris*, House and Seymour (eds.) (New York, 1921) p. 344.

assertion that pre-war trade with the northern neutrals formed only a small part of Britain's total export trade. Due to Britain's reduced tonnage, European markets had become increasingly important as America and Japan found it easier to supply Britain's distant markets. In any case food and raw materials, the main articles the blockading authorities wished to prevent reaching Germany, did not come from Britain who mainly supplied manufactured goods. Emmott's arguments fell on deaf ears. Mr Leslie of the Contraband Department minuted: "I trust we shall avoid detailed criticism of it, as we shall never get to the end of the subject if we argue it further on paper with every Government Department."⁴²

In Paris it was found that the blockade was bound up inseparably with questions of relief, supply and finance. On 8 February, 1919 a Supreme Economic Council was established to co-ordinate inter-allied activities including blockade control.⁴³ The chief British delegate, and first chairman of the Council, was Lord Robert Cecil. Despite being a former blockade minister Cecil had been convinced of the need for a relaxation of the blockade, not only in relation to food but also to certain raw materials and exports. He stated to the Council of Four that it was essential to restart industries in Germany and Europe and that this could not be done without raw materials. He added that the maintenance of the blockade prolonged distrust and instability.⁴⁴ In response to these liberal views the Foreign Office sent over William Mitchell-Thompson, the director of the Restriction of Enemy Supplies

⁴² CAB 24/74/G.T.6789: 'Blockade Restrictions on Exports' by Emmott, 25 January 1919.

⁴³ Its remit was "To examine such economic measures as shall be taken during the period of reconstruction after the war so as to ensure (a) a due supply of materials and other commodities necessary for the restoration of devastated areas; (b) the economic restoration of the countries which have suffered most from the war; (c) the supply of neutral and ex-enemy countries without detriment to the supply of the needs of the Allied and Associated countries." Quoted in H.W.V. Temperley, *History of the Peace Conference of Paris* (London, 1920-24) vol. I, p. 297. The SEC replaced the Supreme Council of Supply and Relief.

⁴⁴ Session on 9 May, 1919 at 11.30am. Arthur Link (trans. & ed.), *The Deliberations of the Council of Four*, (24 March-28 June, 1919) vol. II, LXIX (New Jersey, 1992).

Department, to act as blockade advisor to Cecil and act as the British Government's representative on the Supreme Blockade Council.⁴⁵

Strong pressure was also coming from the United States to end the blockade. Robert Anderson of the War Trade Board thought it was time to relieve Scandinavian countries of Allied import and internal controls upon an assurance of effective enforcement of provisions against exporting to enemy countries. There could be more effective administration of export restrictions if neutral countries were treated as co-operators instead of opponents. It was desirable during the transition period for the Allies to draw the neutrals closer to them, through fairer treatment and freer trade, instead of alienating them by the continuance of internal interference established at a time when blockade in the Baltic had been impossible.⁴⁶

However Harmsworth was worried at attempts by the United States to lift censorship and so break down the blockade. The Board of Trade and the Postmaster General also thought that the recovery of export trade was hindered by the delay involved in censoring and the expenditure incurred in sending open messages in place of abbreviated commercial codes, as had been the pre-war practice. Yet the Foreign Office, Admiralty and War Office all pointed out that any abolition of censorship would diminish the effectiveness of the blockade machinery.⁴⁷ Harmsworth wrote to Cecil emphasising the "great importance of maintaining the machinery of blockade"

⁴⁵ FO 382/2336/21049: 21 February 1919.

There was undoubtedly an institutional support for the blockade. At the time of the armistice Keynes concluded that it "had become by that time a very perfect instrument. It had taken four years to create and was Whitehall's finest achievement; it had evoked the qualities of the English at their subtlest. Its authors had grown to love it for its own sake...it was very complicated, and a vast organisation had established a vested interest." Quoted in Vincent, *The Politics of Hunger*, p. 115. Similarly Hoover commented: "The blockade was more than a naval blockade - it was an effective control penetrating back to every seaboard country in the world with a vast bureaucracy that did not easily yield to the sudden change in direction." See Hoover in *What Really Happened at Paris*, House and Seymour (eds.) p. 340.

⁴⁶ Robert Anderson to Vance McCormick, Chairman of the Superior Blockade Council (Paris), 26 February 1919 in S.L. Bane and R.H. Lutz, *The Blockade of Germany after the Armistice, 1918-1919* (Stanford, 1942) p. 159.

⁴⁷ CAB 23/9/WC.531: 12 February 1919.

as the easiest method to pressurise the Germans. He identified the influences working against the continuance of the blockade as Hoover (who believed it destroyed enterprise and prevented recovery) and the British trading community, supported by the Board of Trade and the Treasury. However he believed that the blockade must not be sacrificed for an earlier but not very material contribution to the payment of indemnities.⁴⁸

The Americans were losing patience with wartime procedures continuing after the end of hostilities. For American businessmen it still took five weeks between securing an order and closing the contract by receiving the necessary export licence from London. There was no longer any need for strict conservation of articles in the United States and public opinion would no longer permit the continuance of restrictions unless they were absolutely necessary. The Wilson administration wished to simplify remaining procedure and see an increase in the ration of all commodities to the northern neutrals to meet the economic and industrial needs (especially cotton supplies) to these countries.⁴⁹ It was observed that restrictions of food and manufactured goods to the northern neutrals had no military implication except to uphold the theory that the Armistice period was still war. Restricting goods except for conservation for inter-allied needs and relief was a political injury to neutrals and an economic injury to all nations that had an exportable surplus. Tonnage scarcity was rapidly becoming a fiction and control was no longer necessary.⁵⁰ The Allied Blockade Committee declared that unrestricted importation by the northern neutrals,

⁴⁸ FO 800/250/10: Harmsworth to Cecil, 11 February 1919. Harmsworth's brother was the millionaire press proprietor Lord Northcliffe, who had an ulterior motive in having the Allies continue the blockade until the Germans were forced to accept reparations. As Northcliffe remarked to his brother, Lord Rothermere, he did not intend to spend the rest of his life 'swotting to pay excess profits tax and supertax for the benefit of Germany.' Northcliffe to Rothermere, 10 April 1919. Quoted in Bruce Kent, *The Spoils of War* (Oxford, 1989) p. 39.

⁴⁹ *FRUS. Paris Peace Conference*, vol. 2, pp. 748-50. Polk (acting Secretary of State) to Laughlin (chargé de affaires in London) 7 and 10 December 1918.

⁵⁰ *Ibid.*, p. 774. Sharp (US ambassador to France) to Polk, 23 December 1918.

even if immediate leakage to the enemy did not ensue, would be tantamount to permitting Germany to accumulate large stocks of commodities she required for post-bellum re-equipment in border countries, and would weaken economic pressure. However the Americans remained unconvinced, believing that increased trade with the northern neutrals would still be regulated by existing trade agreements and the necessity of those countries to show good faith in anticipation of the restoration of free trade. Unless the northern neutrals were flooded with Allied manufactured goods Germany would have a rich field for exploitation when peace was declared.⁵¹

Cecil reported to the War Cabinet that the Americans were pressing for the abolition of trade restrictions. One of the strongest opponents of such action had traditionally been the military. It was an indication of how, since the Armistice, the blockade had become primarily a military not an economic weapon, a force for effective coercion rather than just exerting passive influence. Nevertheless Sir Henry Wilson, the Chief of Imperial General Staff, now proposed that the curtain of blockade should be opened, though without total abolition. The military had become increasingly worried over the effect food shortages were having on German society. They had the benefit of constant reports from military intelligence observers in Germany reporting on living conditions. It was Churchill, at the War Office, who feared that starvation and shortages would foster the spread of Bolshevism and see Germany slip into anarchy.⁵²

The War Cabinet were in favour of a relaxation in trade restrictions as a concession to the United States without destroying the actual blockade machinery.

⁵¹ Ibid., pp. 766 and 785. Davis (US ambassador to Britain) to Polk, 20 December 1918 and Polk to Davis, 3 January 1919.

⁵² CAB 24/78/G.T.7149: Memorandum by the Secretary of State for War on the relaxation of the Blockade. Haig and Wilson had both come around to this point of view by the end of February 1919. For British fears of the impact of the blockade, particularly of foodstuffs, on the process of

Cecil was empowered to take action as he saw fit.⁵³ At the Supreme Economic Council Cecil introduced resolutions designed to end the blockade. In taking into account the need to resume normal trading conditions in Europe as quickly as possible he proposed the suspension of all remaining regulations governing the trade of the northern neutrals, especially those governing the control of re-exports to Germany and controls on German exports and imports (with the exception of gold, silver, securities and war materials). The suspension would be temporary and could be withdrawn if the German Government refused to co-operate.

With the support of the British, American and Italian delegates the resolutions were carried but the proposals were rejected by the Council of Four. With the German Peace Delegates due to be confronted with preliminary peace proposals at the end of April it was considered impolitic to take such significant action at such a juncture.⁵⁴ Indeed Mitchell-Thompson was confident that the Germans would refuse to sign the peace preliminaries and that a stringent blockade would have to be re-imposed.⁵⁵ Allied statesmen were prepared to sanction such action right up until the signing of the Versailles Treaty.⁵⁶

democratisation in Germany see Newton, *British Policy and the Weimar Republic, 1918-1919*, especially pp. 322-60 and 375-89.

⁵³ CAB 23/10/WC.558: 17 April 1919.

⁵⁴ CAB 23/10/WC.560: 29 April 1919.

⁵⁵ FO 382/2318/f297/75298: 20 May 1919. The measures recommended included suspension of all exports by sea between Scandinavia and Germany, the suspension of all food imports, cutting off traffic between the left and right bank of the Rhine, stopping German exports and the re-imposition of the General Black List and Statutory List. FO 371/2314/f297/60055: April 1919.

⁵⁶ S.L. Bane and R.H. Lutz, *The Blockade of Germany after the Armistice, 1918-1919*, pp. 528-31. Minutes of the 23rd meeting of the SEC, 16 June 1919. Preparations to re-impose the blockade short of

The position of trade during the Armistice blockade.

In March 1919 Edwin F. Stockton, President of the Manchester Chamber of Commerce, wrote to Stanley, President of the Board of Trade, to state that in the Chamber's opinion the time had arrived to remove restrictions from the trade on manufactured goods exported to the neutral countries adjacent to enemy territories, as no good purpose appeared to be served by their continuance. He stated that £6-7 million of yarn and cloth was urgently desired by Holland, Denmark and Scandinavia for their own use. He warned that although demobilisation was proceeding, little trade had come forward from any part of the world and it would not be long before unemployment caused growing distress in Lancashire.⁵⁷ The cotton industry had been one of the worst affected industries during the war due to restrictions on imports of cotton. Many factories had shut or operated on half time due to a decrease in production capacity.

Stanley was not unsympathetic and believed that the continued rationing of European neutrals and export by rationing was interfering with the revival of British trade in those countries. The War Trade Department was still issuing 2,000 licences per day. With greater freedom a good deal of business could be achieved. After years of rationing the blockade neutrals urgently required goods, Britain was geographically close to supply them and the neutrals were in a position to pay for them. Stanley questioned whether the elaborate system of certificates provided by the trading Trust organisations in neutral countries to keep manufactured goods out of Germany had any appreciable effect on Germany's capacity to resume the war. He recommended that all articles except for those used for military purposes, raw materials and

actual imposition were to be taken. There was to be no public threat but steps taken to ensure that the public were aware of the action. To this end, destroyers were to show themselves in the Baltic.

foodstuffs and articles needed in Britain should be freely exported without licence. He was supported in this view by the Treasury but not, unsurprisingly, by the Ministry of Blockade.⁵⁸

Manufacturers complained that the only way to prevent the Americans from getting a firm hold in the Scandinavian market and to secure the interests of British traders was for the Government to curtail the restrictions which impeded business. Members of the Foreign Office Contraband Department had their own views as to where the problem lay. Mr Bland commented that the only expedient was to try to outdo the Americans at their own game, with vigorous commercial travelling but, he added, "our people prefer to expend their energies in unavailing correspondence and complaint against the very necessary restrictions of the blockade."⁵⁹ These comments, although unsympathetic, were true to an extent. Mr Broch, the Norwegian agent for Vickers, observed that the Americans were adopting the German approach to business, with experienced commercial travellers calling on buyers and informing them they were willing to manufacture exactly what was required. The British still persisted with their 'take it or leave it' attitude. However he still considered that Britain's worst enemies at present were the authorities who prevented their own people from doing business.⁶⁰

In a speech to the Associated Chambers of Commerce, Stanley stated that outside war production, manufacturers were doing little more than providing for immediate and bare necessities. If the country was to succeed in the great struggle it was evident that the maximum efficiency of economy of production had to be

⁵⁷ Lloyd George MSS F/2/6/26: Stockton to Stanley, 4 March 1919.

⁵⁸ Lloyd George MSS F/2/6/25: Export Restrictions to 'Blockade Countries,' 5 March 1919.

⁵⁹ FO 382/2258/44928: Jones Brothers Ltd., 6 March 1919.

⁶⁰ FO 382/2258/74088: Letter from H.H. Broch, 6 May. Enclosure in Findlay's despatch No. 465 Commercial of 10 May 1919.

maintained and the largest possible output secured.⁶¹ Manufacturers were busy satisfying the urgent demands of the home market rather than concentrating on overseas markets. It was one thing not to be able to export due to restrictions and another because goods were not available in sufficient quantities.⁶² A report by the Federation of British Industries had identified this potential problem during the war. It stated that the “ingrained tendency of British manufacturers and working man is to be content with the work which immediately lies to his hand, and to neglect the preparation necessary to secure foreign markets.” The FBI warned that neglect of foreign markets, on which the ultimate prosperity of the country depended, would be most acute during the reconstruction period when immediate talk of replacing depreciation at home and restoring ravaged territories would fill attention.⁶³

The success of American competition was put down to the fact that commercial staff at United States legations abroad were in direct contact with the American War Trade Department and could give a definite promise that if orders were placed with an American firm, export licences would be forthcoming. The British War Trade Department kept in contact with its legations through the Foreign Office. Lord Emmott thought it was a fair assumption that American commercial and financial houses were engaged in a well-organised campaign to obtain European orders on an extensive scale, perhaps as the price for their departure from their traditional policy of non-interference in European affairs. He feared that if a similar campaign was not organised in Britain export markets would be lost. If this happened, Emmott could not

⁶¹ *Board of Trade Journal*, 100 (1918) p. 428.

⁶² Lloyd George MSS F/195/4/14: “The Improvement in the Trade Outlook” by Auckland Geddes, undated but 1919. Mr Edgecombe, from the Latin American section of the Department of Overseas Trade, commented in July 1919 that the moment was favourable for trading in the Spanish market owing to the Germans being temporarily out of the market and the Americans still comparatively new to the trade. “The chief difficulty in taking advantage of that opportunity lies in the fact that British capital and British goods do not exist in the volume in which they did when the opportunities were less favourable.” Lloyd George MSS F/195/4/1: 21 July 1919.

see how the financial position of the country could be rectified. His thoughts were dismissed as “fanatically exaggerated” by the Contraband Department.⁶⁴

There were widespread complaints from traders about the Swedish Trade Commission seizing rationed goods received from firms in Britain. Imports into Sweden were controlled by Trade Associations who confiscated and distributed amongst their members all rationed imported goods. As a result, goods licensed for export from Britain often failed reached their consignees, ruining trade relations. This stemmed from the difficulty of allocating limited rations amongst all members of the Association. However the United States Consulate contacted firms with difficulties ordering goods from abroad and offered help in finding alternative supplies from America.⁶⁵ Despite the United States refusal to provide credit to finance the reconstruction of Europe, McAdoo was sympathetic to pressure from American exporters, and he proposed credit for the purchases of goods produced in the United States that could not be otherwise financed.⁶⁶ The worst fears of British officials seemed to be confirmed in January 1919 when a telegram was intercepted from the American mission in Paris to the American mission in Prague, at a time when the reopening of trade with Czechoslovakia was under discussion. It was feared the Americans were attempting to steal a march and immediate steps were ordered to forestall American enterprise by promoting British trade with Czechoslovakia, a country considered to have a great industrial future.⁶⁷ In March 1919 the State Department was instructed by Lansing to facilitate trade development in central Europe. Consulates were to be opened and passports issued to responsible

⁶³ FBI MSS 200/F/3/D1/1/17: “Reconstruction” and the Future of British Trade, Industry and Labour’ by E.F. Oldham and R.T. Nugent, July 1916.

⁶⁴ FO 382/2258/41975. WTD to Foreign Office and subsequent minutes, c. April 1919.

⁶⁵ FO 382/2258/70453: Garnock, Bibby and Co. Ltd. to the Department of Overseas Trade, 6 May 1919 and Mr Grove (Gothenburg) to the Foreign Office, 18 February 1919.

⁶⁶ See Walworth, *Wilson and His Peacemakers*, pp. 166 and 169.

businessmen. There is little doubt that the American trade bogey was used in an attempt to panic government officials into relaxing trade restrictions, just as fear of a German military revival was used by blockading authorities to justify the continuance of restrictions. With two such diametrically opposing objectives, compromise was difficult.

The issue of trade restrictions was taken up in the Commons. Sir Donald Maclean was typical of many opinions expressed:

Why hurry and bother businessmen by these ridiculous restrictions, with no clean-cut, sound policy that they can respect? As long as we have these parasitic Departments feeding upon our national industries, so long will these things happen.⁶⁸

Stanley had fallen ill and his place at the Board of Trade had been taken by Auckland Geddes, the Minister for Reconstruction. Geddes announced, on 10 March, that exports to non-blockaded countries were to be unrestricted except for goods necessary for naval or military purposes, those required for home consumption or those which had benefited from state subsidy. As for blockaded countries, some goods would be placed on the free list and re-exports would be assisted "consistent with Inter-Allied agreements."⁶⁹

Reflecting on the history of the War Trade Department after the Armistice, Emmott concluded that it was "one long tale of protests against what appeared to be rigidity and red-tape, or constant chopping and changing of policy." He doubted whether the Department could have used its theoretically independent status (being accountable only to the Prime Minister) to decide applications for licences merely on the merits of the case. In cases such as the placing of a total embargo on exports to

⁶⁷ FO 382/2037/29077: Waterlow (Paris) to Curzon, 19 February 1919.

⁶⁸ 113 H.C. *Deb.* 5s. col. 950, 10 March 1919. Maclean, Liberal MP for Peebles, was one of the 29 independent Liberals returned at the 1918 election.

⁶⁹ *Ibid.*, col. 956.

Scandinavia and Holland in October 1917 in the hope that these governments would accede to British demands, the WTD could only accept under protest the opinion of the departments in question and loyally carry out their policy.⁷⁰ The Department was a “lightning conductor for annoyance of trades.”⁷¹

The damage caused by goods making their way to Germany was not comparable to the injury caused to the British export trade by not exploiting exporting opportunities to adjacent neutrals. The reason for the Government’s reluctance to relax the blockade on enemy countries was purely political. In a statement in the Commons on 27 March, which deserves to be quoted in full, Geddes elucidated the policy:

Every day that passes makes it more clear that the policy of maintaining the machinery of the blockade and a great part of the substance of the blockade was well advised. If we had thrown away that weapon, as we are now laying by a large number of our swords and bayonets, there would have been a great deal of work which was done at the cost of much blood to be re-done. So for a little time the Government, recognising fully the difficulties, must maintain in connection with its Allies the restriction upon exports to the blockaded countries...I hope they will be removed quickly, but they will not be removed until our beaten enemy admits in writing her defeat. That is the policy of the Government. We are full of desire, full of sympathy, recognising that it is of vital necessity to do everything that we can for British trade. There is nothing within the agreement with our Allies, and within the limits set by the interests of the nation we will not do for British trade, but there is one thing we will not do. We will not be pushed by uniformed criticism into a course which, after full consideration of the many facts which can only be known to the Government we believe to be wrong.⁷²

Not for the first time during the war, political motives were to override economic concerns and British exports were to be sacrificed in order to ensure German compliance at the Peace Conference.⁷³

⁷⁰ Emmott MSS 6: ‘Departmental Demobilisation’ by Lord Emmott, 27 March 1919.

⁷¹ Emmott MSS 6: Emmott to Bonar Law, 25 November 1918.

⁷² 114 H.C. *Deb.* 5s. col. 750.

⁷³ Arthur Stanley admitted at the 58th meeting of the Associated Chambers of Commerce, on 9 April 1918, that he had not hesitated to sacrifice trade and commerce when necessary in the national interest. *The Times*, 10 April 1918.

Lord Robert Cecil, now the chief British delegate on the Supreme Economic Council, considered that in order to keep the blockade over Germany complete it was necessary to maintain control over the trade of the blockade neutrals. He was strongly in favour of the abolition of restrictions, from an economic point of view, but only when safe to do so on military grounds. Lloyd George stated that peace was essential to reconstruction and recovery. He invoked an image of “men of every trade with hands on the lever waiting for the announcement of peace” but he made peace a prerequisite, stating that the certainty manufacturers and traders required would only come with the end of the Peace Conference. Instead of recovery beginning with the Armistice in 1918, it was effectively delayed until Germany had signed the Treaty of Versailles.⁷⁴

On 28 June 1919 the Treaty of Versailles was signed. A month later, on 31 July, it was announced that the blockade had been raised and that there was no restriction on exports or imports (except where prohibited by proclamation). It was stated that “it is no part of the policy of His Majesty’s Government to discourage British trades from competing in German markets, and it is desirable that British traders should make every effort to secure a footing in Central Europe.”⁷⁵ The call was eagerly heeded. By the end of 1919, British traders had sent £23.2 million of exports to Germany, rising to £51 million in the following year. British exports and re-exports also flooded to the neutrals adjacent to Germany. Exports to Denmark rose from just £3.9m in 1918 to £41m a year later.⁷⁶ A general increase in British exports and inflated prices helped to reverse the current account balance from a deficit of £58m in 1919 to a surplus of £213m in 1920. An end to the blockade meant the re-opening of

⁷⁴ Ibid., cols. 2954 & 2969, 16 April 1919.

⁷⁵ Cmd. 274, *Trade Conditions after the Raising of the Blockade* (1919).

former lucrative European markets and the dislocation of the European economy meant that Britain enjoyed a temporary balance of trade surplus with Scandinavia and Germany. Export values reached a high in 1920 (£1557.2m) until the summer when the post-war slump set in.⁷⁷

Conclusion.

As any hope for the utilisation of the economic weapon faded, so too did everything associated with it, such as continued inter-allied co-operation over purchasing and shipping. The informal war-time negotiations for the equalisation of access to raw materials were never officially raised at the Versailles Peace Conference. The proposal to use Allied control of exportable surpluses of raw materials as a means of enforcing the Central Powers to fulfil the peace terms also failed to receive serious consideration.

The blame for the demise in Allied co-operation is normally levelled at the United States, due to their refusal to co-operate further with inter-Allied administrative bodies. However the British also had an interest in restoring independent action, especially once it became clear that inter-Allied action without the Americans was

⁷⁶ Similar increases were recorded (from 1918 to 1920) in Sweden: £2.8m to £44.3m, Norway £5.6m to £35.3m and the Netherlands £23m to £86m. Kirkaldy, *British Finance During and After the War, 1914-1921* (London, 1921) pp. 370-2.

⁷⁷ However, as a memorandum from the Board of Trade just before the lifting of the blockade observed, it was vital not only to re-establish the old export trade but also to expand it. The credit and position of Britain in the commercial and financial world could only be re-established by exporting to meet war indebtedness and provide new capital for investment. European markets would be disorganised for years and the United States was in a better position to capitalise on opportunities with accumulated stocks, a large reserve of funds, large scale production methods and better industrial organisation and productivity of labour. Production was a key factor in post-war recovery. Lloyd George MSS F/195/2: 'State of Trade since the Armistice and the Present Position' unsigned, 16 June 1919.

Auckland Geddes identified the central economic problem as that of exports. Not only did Britain have to win back markets but £75,000,000 (pre-war value) of trade went to enemy countries or European countries in a state of disorganisation. Lloyd George MSS F/17/5/38: 'Permanent Trade Policy' by Geddes, 3 June 1919.

more of a hindrance than a help to recovery. At the conclusion of peace, reconstruction would depend entirely upon the rapidity with which export trade could be revived. British interests would be best served by exporting to the United States and other countries with whom Britain had a large floating debt, rather than exporting to the European Allies for reconstruction purposes. The gradual but rapid release of British shipping for use at her own discretion could be achieved by utilising German tonnage to relieve the Allies, insisting that each country carry out its own demobilisation (especially the transport of troops back to America) and pressurising neutral governments into continuing their existing tonnage agreements until the signature of the final peace. As regards raw materials, the British Empire could establish the right to utilise its resources for its own needs. With the end of hostilities, the revival of the export trade would fundamentally alter the way in which supplies were allocated between the Allies and priorities determined between manufacturers at home.

The consequences of failing to develop a mechanism for controlling Germany through the supply of raw materials meant the continuance of the blockade as a means of ensuring German compliance during the armistice period. This, in turn, directly jeopardised the speedy revival of Britain's export trade by delaying the re-establishment of normal trading relations between Britain, Europe and the wider world. Balfour also noted that Allied diplomacy during the Armistice had been seriously embarrassed by military weakness due to rapid demobilisation. The problem related to the smaller Allies and smaller enemies who had not obeyed the larger Powers at the Conference either through gratitude or fear. At different times the Greeks, Romanians, Poles, Czechs and Yugoslavs had all disobeyed explicit instructions. However the big Powers had been compelled to talk when action was

required. Balfour complained there was no method of coercion except for the economic weapon. This only existed in the crude form of the blockade and had not been systematically employed on a large scale as an engine of persuasion. He called for a closer study of its capabilities.⁷⁸

However there was a more serious long-term consequence. By maintaining the rigid blockade, which continued to deny Germany food and raw materials, instead of substituting it for a mechanism which only threatened, in the first instance, punitive economic action, the Allies ensured that the legacy of the economic blockade during the armistice period gained a reputation out of all proportion to its wartime effectiveness. This legacy of the 'hunger blockade' would undermine the Versailles settlement, perpetuate the myth that Germany was starved and not defeated into submission, and determine the strategy by which Germany fought the next world war.

⁷⁸ Balfour MSS 49750: 'Armies and Economics. Being Reflections on Some Aspects of the Allied Situation of July 27, 1919' by Balfour, 27 July 1919.

Conclusion

In his review of Soutou's *L'Or et le sang*, David Stevenson noted that his analysis read "in large measure as a study in failure".¹ Similarly this thesis has examined measures which largely failed to materialise owing to the complexities of organising wartime strategy. A vigorous trade war, maximising the potential of the Statutory List, failed for strategic reasons. It was blunted by policies supporting the British war effort which prioritised economic preparation for military action above all else. The policy of exerting control over materials failed for political reasons. The differing interests of the Allies, the Empire and the United States were too varied to ensure effective action. Moreover, the policy was never given a proper chance to work as ongoing planning was thwarted by the sudden and unexpected end to hostilities.

In Britain, the use of psychological pressure to force Germany to see the 'writing on the wall' became increasingly unnecessary as the government lost interest in peace by negotiation. Once the Americans entered the war the Allies could afford to wait for victory and were less inclined to seek peace. If the Allies relied too heavily on an economic threat, this might be construed by the enemy as an indication of military weakness. A negotiated peace was a theme taken up by pressure groups such as the Union of Democratic Control who believed that a lasting settlement could not be secured by a peace based upon the right of conquest and followed by a commercial war. However their grounds for believing that Germany would negotiate had little factual basis. The construction of the Lloyd George coalition, with its determination to effect a 'knock-out

¹ *English Historical Review* 105, 417 (1990) p. 983.

blow', polarised the stance between Britain and Germany.² The theme of a negotiated peace became an issue of domestic politics. It was seen by some as a means of restoring the fortunes of the Asquith Liberals, especially after the publication of the Lansdowne letter.³ Meanwhile the government mounted campaigns during 1917-18 that sought to reinvigorate national values to support the case for 'holding on' until a military victory had been achieved.⁴

There existed a parallel between the political aim of Lloyd George's 'knock-out blow' and the economic aim of the remaining Liberal free-traders. Both parties envisaged a choice between ending the war in a way that would ensure lasting peace, or concluding an arrangement which would stop the fighting but leave nations in hostile array. The latter alternative, of Britain and Germany nourishing an undiminished enmity through a commercial and diplomatic war whilst preparing for a renewal of armed hostilities, was not inviting.⁵ A negotiated peace envisaged implementing the Paris Resolutions in order to keep Germany in check and to prepare for future hostilities, realising the worst fears of the Liberal free-traders. It was considered much better for the cause of future peace and security to end the war on the field. The peaceful and ordered world the liberal consensus hoped to achieve after the war would be impossible unless Germany was decisively beaten and disarmed.⁶ For Lloyd George it was easier to impose conditions through military victory than to implement them as war policy. Shortly after the outbreak of war H.G. Wells had written "A war that will merely beat Germany a little and restore the

² Marvin Swartz, *The Union of Democratic Control in British Politics during the First World War* (Oxford, 1971) pp. 66-82.

³ Keith Robbins, *The Abolition of War. 'The Peace Movement' in Britain, 1914-1919* (Cardiff, 1976) pp. 151-2.

⁴ John Horne, 'Remobilizing for 'total war': France and Britain, 1917-1918' in *State, society and mobilization in Europe during the First World War* (Horne, ed.) (Cambridge, 1997) p. 210.

⁵ A. Shadwell, 'Victory and the Alternative' in *The Nineteenth Century and After*, February 1916.

hateful tension of the last forty years is not worth waging. As an end to all our efforts it will be almost an intolerable defeat."⁷ Until August 1918, Ludendorff also clung to the conviction that war would need to end in outright victory.⁸

However it was inconceivable that as men, in the words of Henry Page-Croft, "died like flies" the government would not utilise every weapon possible to attack Germany. In a sense there was a strong ethical argument for attempting to end the war by attacking trade and prosperity rather than life. As the war progressed attrition became the order of the day, both economic and military. In the dehumanising process of industrialised war, soldiers became another commodity to be judged statistically along with wool, cotton, jute and zinc. Yet the strategy of attrition followed by British military planners was flawed.⁹ Throughout the war the number of German men reaching military age was always greater than the number of German soldiers the Allies managed to kill.¹⁰ Theoretically the flow of German manpower was inexhaustible. Britain did not have the capability to control fresh supplies of recruits to the German army but, along with her Allies, she did have the power to control supplies of vital commodities indefinitely.

A breach existed between policy-makers and policy implementers. Political leaders underestimated the potential of the economic measures to act as an additional psychological weapon against Germany. The bureaucrats and officials who suggested policy and worked on its daily operation had an exaggerated vision of its likely

⁶ 'Dare we boycott Germany?' by Robert Blatchford in the *Illustrated Sunday Herald*, 8 September 1918.

⁷ *Daily Chronicle*, 20 August 1914.

⁸ Wilhelm Deist, 'The Military Collapse of the German Empire: The Reality behind the Stab-in-the-Back Myth', *War in History* 3, 2 (1996) p. 189.

⁹ The strategy of attrition went from allowing Germany to exhaust her troops on Allied lines, to the Allies adopting an 'active defence' by striking the German lines, to finally adopting 'offensive attrition' with large-scale attacks. See David French, 'The Meaning of Attrition, 1914-1916', *English Historical Review* CIII, 407 (1988) pp. 385-405.

effectiveness. For Alfred Zimmern to declare that "the economic weapon is the most powerful in the varied armoury of the Allies" was surely to overstate the case.¹¹ Yet equally Lloyd George's 'knockout blow' was a luxury for which Britain could increasingly ill-afford to wait. Once the resources of the United States were behind them the Allies felt they would eventually be assured of victory. However, Smuts was one of many to observe and warn the War Cabinet that British power was waning in comparison with the United States and Japan. He feared that the country would end the war as a second class Power. He saw little point in destroying Germany at the expense of imperial prestige. He called for the perfection of economic policy, not as settled post-war policy, but as a sword to hang over Germany.¹²

It was hoped by advocates of the economic weapon that a firm declaration by the Allies would sow dissension in the ranks of the enemy. By indicating to German leaders that the longer the war continued the more Germany's overseas trading network would suffer and the less chance there would be of obtaining industrial raw materials, it was hoped that German merchants would not allow the Hohenzollerns to drag them into universal bankruptcy. The sooner the Germans realised that post-war peace and prosperity could not necessarily be won on the battlefield, the sooner the war would come to an end.¹³

The results of German economic mobilisation for total war had ultimately been counter-productive. The mismanagement of the economy, with increasing privation and no end in sight to the war, had left civilians frustrated, with low morale and an increasing

¹⁰ On average the surplus of German males reaching military age over war deaths during 1914-18 numbered 349,400. Figures from Niall Ferguson, *The Pity of War* (London, 1998) p. 297.

¹¹ Alfred Zimmern, *The Economic Weapon in the War against Germany* (London, 1918) p. 20.

¹² CAB 23/7/WC.458: 14 August 1918.

desire for the conflict to end, with or without the 'victorious peace'.¹⁴ In this atmosphere, economic psychological warfare could have constituted an additional worry for the authorities concerned with maintaining good order during demobilisation, merchants and industrialists worried about future trade and profits and civilians worried about future employment.

Yet Balfour, in a memorandum calling for the abolition of post-war commercial treaties with Germany, ended with the caution:

German leaders of commerce might rate high the injury which would be inflicted upon their interests; but to the great mass of the population, the loss of 100 square miles of worthless bog would probably seem a more serious blow to German power and prestige.¹⁵

Whilst it was true that German commercial interests were concerned about their economic future, their way out was not to campaign for peace but for a settlement to ensure victory. The German Associated Chambers of Commerce urged trade and industry to agitate for an adequate war indemnity in the form of raw materials in order to escape problems of exchange and boycott.¹⁶ Similarly, as Germany came increasingly under military dictatorship, Hindenburg and Ludendorff reacted to the threat of economic isolation with the resolve to prevent such an outcome by military action. On the domestic front a 'victorious peace' was to be the reward for the hardships endured by soldiers and civilians and, from 1917, the bribe with which to push the nation to greater exertions.¹⁷ The continuance of the pre-war political system in Germany rested upon the ability of

¹³ *The Outlook*, 6 October 1917.

¹⁴ Richard Bessel, 'Mobilization and demobilization in Germany, 1916-1919' in *State, society and mobilization in Europe during the First World War*, pp. 214-5.

¹⁵ Runciman MSS WR 142: 'Commercial Treaties and German Credit' by Balfour, 5 March 1916.

¹⁶ 'The Scramble for Raw Materials' in the *Times*, 30 May 1918.

¹⁷ Wilhelm Deist, 'The German Army, the authoritarian nation-state and total war' in *State, society and mobilization in Europe during the First World War*, p. 169.

that system to deliver victory and security.¹⁸

In foreign affairs, the German High Command (OHL) believed that whatever the outcome of the war Britain would attempt to attack Germany as soon as possible. Therefore Germany had to achieve a military and economic position at the peace which would preserve the national economy against the demands of the Allies. Hindenburg's answer was a 'fortress Germany' supplied by a vast German merchant fleet supplemented by captured enemy vessels. New German lands, adequately supplied with phosphates, animals and machinery, would provide Germany with food to withstand a further three years of war.¹⁹ To this end the OHL abandoned Mitteleuropa for their own notion of how best to secure Germany's future security. The focus shifted from south-east to eastern Europe with visions of a sphere of influence curving from northern France and Belgium through Poland, the Baltic Provinces, north-west Russia, the Ukraine, Romania and the Caucasus, the oil fields of Baku, and ending at underdeveloped Turkey. Mitteleuropa was to form a secondary flank to act as protection for the eastern goals.²⁰ German ruling elites came to regard the world war as a prelude to future major wars in which world powers continually redefined their spheres of influence in constant competition.²¹ The Treaties of Brest-Litovsk and Bucharest confirmed this policy of securing treaties of commerce favourable to Germany principally through imposition rather than negotiation.

For Germany to sue for peace the military party had to be convinced of its necessity or be rendered powerless to prevent it. As it was, Ludendorff and Hindenburg

¹⁸ Holger H. Herwig, *The First World War. Germany and Austria-Hungary 1914-1918* (London, 1997) p. 302.

¹⁹ Martin Kitchen, *The Silent Dictatorship. The Politics of the German High Command under Hindenburg and Ludendorff, 1916-1918* (London, 1976) p. 106.

²⁰ Henry Cord Meyer, *Mitteleuropa. In German thought and action* (The Hague, 1955) pp. 252-58 and 264-74.

²¹ Hans-Ulrich Wehler, *The German Empire, 1871-1918* (Lemington Spa, 1985) p. 213.

saw off all political challenges to remain in control of the direction of war planning and peace proposals. The Supreme Command had too strong a hold over policy for Allied economic propaganda to have any effect, despite the impression it may have made on the German population at large. They failed to recognise that the disparity between their resources and those of the Allies was due to the huge human and material resources the United States was bringing to the Entente and not necessarily due to failings in the German war economy.

Ludendorff's self-belief meant that after victories had been secured over Russia and Rumania he had great confidence in the Spring Offensive of 1918. The British expected that only if the war consistently went against Germany and pressure reached a certain point would Germany offer to conclude peace.²² This point was only reached on 8 August, 'the black day of the German army', which saw an end to German offensive capacity. Thus only after all the military options had been exhausted did Ludendorff seriously contemplate an alternative end to the war. After the collapse of Bulgaria on 28 September, Ludendorff admitted the war was lost and the government should negotiate an immediate armistice. Even then, Ludendorff recovered his composure to the extent that he believed Germany could go on the strategic-defensive and hold the Allied armies through the winter until Germany could get better peace terms in 1919.²³ Given resolute leadership there was almost no limit to what the German people would endure.²⁴ The subsequent approach to President Wilson to sue for peace on the basis of the Fourteen Points was held as the best hope for a lenient peace and a settlement which still secured

²² CAB 24/23/GT.1792: Memorandum on German War Aims by the Department of Information (Intelligence Bureau), 15 July 1917.

²³ Martin Kitchen, *The Silent Dictatorship. The Politics of the German High Command under Hindenburg and Ludendorff, 1916-1918*, pp. 254-5, 261 and 263.

for Germany the freedom of the seas and an open trading system.²⁵

In the end, the talk of using the economic weapon to bring about peace was unrealistic. British leaders did not have the political will to pursue the possibilities an economic boycott could have on the diplomatic field. Both in Britain and Germany there was a determination to achieve total victory by military means. Neither was willing to show any compromise whilst there was still a chance of total victory. Wilson's declaration to the Senate, in January 1917, that there should be "peace without victory" struck the Allies as defeatist.²⁶ After such hardship and sacrifice neither side could afford to conclude a peace which did not include significant gains to vindicate the effort so far expended.²⁷ Lloyd George countered Wilson's approach by declaring "Victory is essential to sound peace. Unless you have the image of victory stamped on the surface the peace will depreciate in value."²⁸

Both British and German leaders thought a negotiated peace, with its inherent notion of compromise, would only postpone the question of European security until another war. British politicians had little desire to carry on punitive post-war economic measures against Germany in order to limit her military potential. Such measures would only complicate the natural workings of the world economic system and breed hostility in the post-war era. Paradoxically, only total victory could impose the desired peace terms and restore a liberal world economic order. Nevertheless it was a victors' peace which was simply to postpone the fate of Europe for an altogether more devastating conflict.

²⁴ A fact Hitler would note. Michael Howard, *The Crisis of the Anglo-German Antagonism 1916-1917* (London, 1997) p. 17.

²⁵ J. Wheeler-Bennett, *The Nemesis of Power. The German Army in Politics 1918-45* (London, 1953) p. 15.

²⁶ Richard Hofstadter, *The American Political Tradition* (London, 1967) p. 264.

²⁷ David French, *The Strategy of the Lloyd George Coalition, 1916-1918* (London, 1995) pp. 33 and 38, Niall Ferguson, *The Pity of War*, p. 286.

²⁸ *The Times*, 13 September 1918.

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